An Introduction To Doing...

IMPORT *and* EXPORT BUSINESS

... Sixth revised edition • 1962

International Department
CHAMBER OF COMMERCE OF THE UNITED STATES
Washington 6, D. C.

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FOREWORD

Consistent demand for *Doing Import and Export Business* has prompted the sixth revised edition of this publication of the Foreign Commerce Department of the Chamber of Commerce of the United States.

This publication supplements the *Foreign Commerce Handbook,* published recently in its fourteenth edition by the Foreign Commerce Department. The *Handbook* serves as a practical guide to the many services and sources of information in the field of foreign trade.

Doing Import and Export Business attempts to present a brief but systematic discussion of the main factors which need to be taken into consideration in organizing and carrying on an import or export business, with a supplementary list of selected reliable sources of information. Presenting a methodical introduction to the principles, problems, practices, and techniques involved in foreign trading, it is a companion piece to the *Foreign Commerce Handbook.*

No ready-made set of rules may be formulated on which a successful foreign trade business can be built forthwith. However, a preliminary study of the fundamental elements may help the newcomer to avoid costly mistakes. This is the purpose which the present work seeks to fulfill.

The booklet is written primarily for manufacturers, wholesalers, and retailers without previous experience in importing, but who wish to do so, and manufacturing companies or other producers who contemplate starting an export business. It will serve also the interests of students of foreign trade, and persons already engaged in importing or exporting in specialized positions. The booklet is arranged in two sections: *Part I—Importing,* and *Part II—Exporting.*

The manuscript has been reviewed by persons prominent in foreign trade. Their suggestions have been extremely helpful in making the work practical and authoritative. Their cooperation is greatly appreciated. Material for this edition was prepared by Mrs. E. M. K. Vest, Assistant Manager, Foreign Commerce Department, under the direction of Kenneth H. Campbell, Manager.

ARCH N. BOOTH, *Executive Vice President*
Chamber of Commerce of the United States.

November, 1961

TOPICAL OUTLINE

PART I—IMPORTING

Part I · IMPORTING

1. *ROLE OF IMPORTS IN THE UNITED STATES ECONOMY*

THE EVENTS of recent years have brought with them a new appreciation of the significance of our import trade. In addition to increasing the dollar exchange available abroad for potential buyers of U. S. exports, our import purchases improve our own scale of living, expand the range of free choice, and help reduce prices. The American market place thereby becomes richer and more responsive to consumer needs.

The U. S. economy as a whole benefits from reductions in cost or improvements in design which actual imports have created or potential imports have stimulated. Such increases in efficiency reflect the power of competition to create better products at lower costs.

A primary national economic gain, therefore, results from the imports for which our exports are exchanged. This may readily be understood by an examination of the character of our imports. Despite the fact that this nation is perhaps the most nearly self-sufficient of all, there are many items which must be imported.

In the aggregate, the value of U. S. imports in 1960 was equivalent to about 3 percent of the gross national product, of which competitive imports are estimated to amount to 1 to 1¼ percent.

Directly or indirectly, imported goods are in daily use in virtually every American home, factory and office, and U. S. industry depends upon imports of many essential materials to keep factory wheels turning and assembly lines moving. Imports provide for 10 percent of the raw materials that American industry needs to turn out everything from automobiles to space rockets. Without tin, nickel, manganese, chrome and cobalt—most of which are imported—whole industries would be seriously affected.

Recent concern over the deficit in the United States' international balance of payments has created a tendency to blame the deficit on imports. Since our balance of *trade* is favorable, the outflow of dollars and gold must be attributed to other causes; and our purchase of goods from foreign countries continues to be the most important means by which the necessary dollars to support our exports trade are created abroad.

Character of Imports

IMPORTS of the United States are divided for statistical purposes into five broad economic classes of goods: namely, crude materials, crude foodstuffs, manufactured foodstuffs, semimanufactures, and other kinds of finished manufactures. Although goods in the crude and semimanufactured states always predominate, the relationships of each of the five classes to the total fluctuate somewhat from year to year, according to domestic business conditions.

About 1/3 to 2/5 of our imports of foreign goods by value at present consist of crude materials and crude foodstuffs which are needed in varying degrees for the manufacture of American products, both for home consumption and for export. This classification embraces numerous kinds of materials either not produced at all in the United States, or produced in extremely limited quantities.

Among prominent examples are crude rubber, raw silk, jute, industrial diamonds, tin, manila and related fibers, coffee, cocoa, and tea. It embraces also other goods which may be produced domestically in large quantity, but not in sufficient volume or kind to meet the entire demand, such as hides and skins, furs, crude petroleum, some ferrous and non-ferrous ores, crude spices, and certain kinds of foodstuffs. Still other kinds of foreign crude materials are preferred to, or used in conjunction with, United States products for some purposes, either because they possess more highly desired qualities or have special properties, such as certain grades of cotton, wool, mica, and unmanufactured tobaccos.

Another class of imports, which make up about one-fifth of the total, consists of goods imported in a semimanufactured state. These also are in demand principally because of the lack of or insufficient domestic production of their basic materials. Notable examples are certain coal-tar products, fertilizer materials, leather, nickel, and certain kinds of vegetable oils and industrial chemicals.

Finished manufactures and manufactured foodstuffs combined make up the remainder of all imported goods, and embrace a very wide variety of staples and specialties. Here, again, the demand may arise from complete lack of domestic production of strictly comparable goods, an inadequate domestic supply, or the fact that their successful production requires special craftsmanship, or the availability of foreign local supplies of raw materials necessary for their production. The list is very long, but among conspicuous examples are burlap, cane sugar, pottery, cheese, various meat products, wines and liquors, newsprint, shingles, olives, edible vegetable oils, and many types of textile goods. At times, manufactured specialties have an appeal in United States markets simply because they are of foreign origin. In differing degrees, many kinds of foreign manufactured goods are competitive with similar or related American products, and as such generally are subject to substantial rates of duty.

Volume of Import Trade

IN AGGREGATE VALUE, our imports of merchandise rarely have equaled our merchandise exports, leaving annual export surpluses which have been met through net services rendered us by foreign countries and in other ways. Since the beginning of this century to 1940, exclusive of the period of World War I, the value of merchandise imported into the United States averaged $2.2 billion per year, as compared with exports averaging $2.8 billion. During the 1920's, largely as a result of sustained high business levels, imports averaged as high as $3.7 billion per year, as compared with exports of $4.6 billion. Throughout the 1930's, however, total foreign trade stood at relatively low levels, imports averaging only $2.1 billion per year, and exports $2.6 billion.

As a result of very high industrial activity incident to World War II, both imports and exports climbed to unprecedented levels. By 1944, total imports had risen to nearly $4 billion, while exports reached $14 billion. In this period, however, both imports and exports were affected by very unusual conditions. Exports were made up predominantly of goods adapted to war needs and were shipped in tremendous quantities to our allies under the Lend-Lease program, which called for no immediate reimbursement beyond what reverse Lend-Lease materials and services they could furnish us in the prosecution of the war. Although our need for many classes of imports obviously was very great, the quantities available were much restricted by lack of shipping space and the blocking of many vital sources of supply by the enemies.

After the cessation of hostilities in 1945 imports continued to increase in value, ranging from $4.9 billion in 1946 to almost $11 billion in 1951. The following years showed slightly lower imports until 1955 when a new high of $11.5 billion was reached. Only from 1948 to 1949 was there a drop in the value of imports of about $500 million, or from $7.1 billion to $6.6 billion, reflecting the recession then present in the U.S. economy. Exports, on the other hand, dropped from the levels of the war period to a postwar low of $9.7 billion in 1946, and rose abruptly in 1947 to a level of $14.4 billion, exceeded in 1951 by a value amounting to just over $15 billion. These export figures, however, include military aid exports.

The year 1957 was a peak trading year for the United States, up to that time, with exports of manufactures, raw materials, and foodstuffs totaling $19.5 billion—exclusive of military aid. In the same year, U. S. imports totaled $13 billion. Imports in 1958 showed little change from the previous year, while exports declined. In 1959, exports remained more constant, and imports rose, reflected primarily in increased industrial materials. Then, 1960 became the new peak year for U. S. commercial exports—reaching a total of around $20 billion. With imports somewhat reduced, the export surplus for that year mounted to around $5 billion. This surplus helped to reduce the over-all balance of pay-

ments deficit, and is accounted for in some measure by an aggressive national export expansion program launched earlier in the year and reflected in 1960 export trade.

Exports for the first six months of 1961 were reported running at an annual rate of about 5 percent above the level achieved in the same period in 1960. Imports were about 11 percent below the corresponding period the previous year.

The above figures are intended primarily to show the relationships which have existed between current import and export values. Any period-to-period comparisons are somewhat misleading as showing increases or decreases in actual volume or quantity of trade, because of fluctuations in prices or unit values of merchandise. This is especially true of comparisons of postwar values with those of the immediate prewar period.

Sources of Imports

THE UNITED STATES imports materials and products from all parts of the world, although recently the areas under Soviet domination have supplied only a trickle of imports into the United States. There are few countries in the free world, however, of any importance in world commerce which do not figure to some extent in supplying our varied needs and wants. Many are sources of one or more important kinds of raw materials, due either to the specialized character of their natural resources or to conditions unusually favorable to growth or production. Others which are more highly industrialized contribute heavily to the volume of imported manufactured goods and semimanufactured articles. Still others are outstanding as sources of merchandise in all stages of development from raw materials to finished products.

Before the war, many countries of Asia, particularly those of the Pacific region, were the principal sources of a variety of essential raw materials. In fact, Asia as a whole was responsible for a larger volume than any other continental area. Most of our great supplies of rubber, tin, chrome, silk, tea, copra, coconut oil, manila fiber, and spices came from this region, as well as large quantities of other crude and semimanufactured imports. Figuring most prominently in this trade were Malaya, Japan, Indonesia, the Philippines, India, and China.

In the European area, the United Kingdom, Belgium, France, Germany, Sweden, Switzerland, Italy, the Netherlands, Russia, Norway, and Finland were among the largest suppliers, although some other nations figured prominently. Because of the high degree of industrialization in that area, finished manufactures and semifinished goods predominated. Among the many diversified imports were, for example, coal-tar products, prepared meat products, watch jewels and movements, special steels, cheese, pottery, wines and liquors, woolen fabrics, linen goods, olives and olive oil, tobacco, and art works. During the war, and since, some essential imports formerly received from the war-stricken areas of both Europe and Asia were supplied by various countries of the Western Hemisphere and Africa. More recently, our import

trade has undergone a similar shift in regard to products formerly procured from the Soviet Union and her satellites.

In the Western Hemisphere, Canada has long been our chief single supplier. From this source we import an extremely wide diversity of products from crude materials to finished products, among which for example are: paper, pulpwood, wood pulp, lumber, coal, grains, nickel, asbestos, fish, furs, and chemicals. The most important individual country sources of foreign supplies to the United States in 1960, for example, apart from Canada, were Japan, the United Kingdom, the Federal Republic of Germany, and Venezuela. Other comparatively important suppliers included Mexico, Cuba, Brazil, France and Colombia. All countries of Central America, South America, and the Caribbean area countries are especially important to the United States as suppliers of essential commodities, particularly raw materials and semi-processed goods. Coffee, sugar, cocoa, hides, bananas, petroleum, ores, fertilizer materials, meats, molasses, vegetable oils, and oil seeds, and certain types of tropical woods and logs, are among the outstanding commodities.

Many countries of Africa, and Oceania have grown more important as sources of numerous imports in recent years. Of particular importance are Ghana, Nigeria, Republic of the Congo, Ruanda-Urundi, and the Union of South Africa, Australia, and New Zealand. In many cases they are sources of specialized items, such as wool, cotton, minerals, fibers, cocoa, other foodstuffs, and hides and skins, and most recently, fissionable materials for the production of atomic energy.

Recent rise in imports from parts of Africa, Australia, and Oceania, Mexico and the Netherlands Antilles approximately offset reductions in imports from Japan, the Republic of Indonesia, and the United Kingdom.

The detailed commodity composition of our imports, and the amounts in which they are received from various countries of the world, may be seen in statistical reports, compiled by the Bureau of the Census from custom house records published by that Bureau's Foreign Trade Division, and from other sources mentioned in the selected reference material.

Imports for United States Industry

As raw materials for industrial production, imports play an extremely vital role. Hardly any industry in the United States can avoid the use of some foreign material in its products. Space does not permit an adequate summary on this point. Only a few outstanding examples may be mentioned. The American steel industry, for example, uses about forty separate imported materials obtained in more than fifty foreign countries. In the newer alloys, foreign materials are much more important than is commonly supposed. Special iron ores not produced domestically are frequently required. Nickel, tin, zinc, vanadium, chromium, molybdenum, manganese, tungsten, antimony, fluorspar,

graphite, magnesite, and pyrites, all of which we find it necessary to import in varying quantities, have become essential. We are also importing substantial quantities of iron ore.

The electrical industry is another illustration. In the use of common electrical products, one gives little thought to the numerous materials used which come from foreign countries: tungsten, nickel, silk, waxes, gums, shellacs, rubber, asphalt, copper, lead, thorium, platinum, asbestos, mica, quartz crystals, and so on. The leather industry uses great quantities of imported cattle hides, and calf, sheep, and goat skins, besides many special skins, such as kangaroo, walrus, elk, seal, buffalo, and snake, coming from many parts of the world. For tanning purposes, the industry uses imported quebracho extract, wattle bark, linseed oil, cod oil, sumac, cochineal, and other materials.

The textile industry obtains a very large part of its special wools from foreign sources. Special long-fiber cottons not produced domestically are needed for cotton threads and many other textile products. All supplies of raw silk must be imported. The cordage industry relies heavily on foreign supplies of manila and other hard fibers. Virtually all burlap and jute we use originate in India.

The soap and paint industries, as well as the food industry, are partially dependent on foreign vegetable oils. Coconut oil is almost essential in the best soaps, as is palm oil and others. Despite domestic production increases, imports of tung oil and linseed oil are vital necessities for some paints and varnishes, as are mineral pigments from France and shellac from India. Olive, soy bean, babassu, perilla, and oiticica oils have extensive uses in these and other industries, and are imported in seed form or as processed oils.

A few more examples are: clays, oxides of tin, zinc, manganese, cobalt, antimony, potash, and arsenic, for the pottery and glass industries; gallnuts, logwood extract, gum arabic, camphor, aniline dyes, and tartaric acid, for the manufacture of ink; ipecac, cinchona bark, coca leaves, nux vomica, opium, ergot, castor oil, camphor, to mention a few, for the drug industries; coney skins, hare skins, rabbit skins, sheep and goat skins, hemp, and straw braids, for the hat industry; fertilizers, rope fibers, binder twine, burlap, and insecticide materials, for agriculture; and pulpwood and wood pulp for the paper industry. Chicle is a necessary ingredient in chewing gums, imported watch jewels and movements are used in most fine watches, and the American cigarette is blended liberally with imported tobaccos. The modern automobile would be a sorry spectable or prohibitively expensive except for products obtained in numerous foreign countries.

2. METHODS OF IMPORTING

GOODS BROUGHT into the United States from foreign countries are purchased and handled in various ways. A large part of the business is done by import middlemen, or intermediaries, whose functions are to procure supplies from abroad for sale to manufacturers or wholesale and retail distributors in this country, or to make negotiations which facilitate their purchase by such customers. This is known as indirect importing. On the other hand, many United States manufacturers, wholesalers, and retailers do their own buying at first hand from various types of outlets in foreign countries, which may be manufacturers, producers, or middlemen, and themselves assume all activities and responsibilities incident thereto. From the point of view of the domestic manufacturer or distributor, this means of importing is referred to as a direct method.

The following paragraphs outline the principal functions of the different types of importing middlemen in the United States and some distinctions in the kinds of activities they perform, as well as brief descriptions of the main types of outlets located in foreign countries which the direct importer may contact. Although classified for convenience as types, it should be remembered that the functions of each are not necessarily exclusive, since in actual practice many middlemen merge the activities of more than one type. Manufactured products sold in the U. S. market are sometimes handled through agencies and facilities furnished by foreign manufacturers. These may be traveling salesmen or U. S. branch sales offices or houses or U. S. distributors or agents. These facilities make foreign products available in the U. S. market by representatives of foreign manufacturing firms.

Indirect Purchasing

MANY MANUFACTURERS using imported materials, as well as wholesale and retail distributors of foreign goods in this country, for many reasons are unable or unwilling to undertake the responsibilities and added tasks involved in direct foreign procurement and the transportation and entry of their supplies. The size of the business they are able to do and the financial resources available to them very often are important determining factors in this respect. Sometimes the customary trade practices in the commodities they buy will have important bearing on the procedure used. In any event, such businessmen have available to them the services of well-established firms located in the United States which are thoroughly experienced in buying in foreign markets and selling in this country, or which solicit orders and otherwise negotiate purchases.

Domestic Importing Intermediaries

Among the types of domestic importing intermediaries prepared to serve in differing ways the interests of those who do not import their merchandise directly from suppliers abroad are import merchants, import commission houses, resident foreign agents, brokers, factors, and importing wholesalers or jobbers. The choice of intermediary will be dictated largely by the kind of commodity purchased, trade practices, or the kind of working arrangement the buyer desires to undertake.

The Import Merchant. The import merchant in the United States buys on his own account, stocks his own goods, makes his own prices, and bills and delivers directly. He functions as an intermediary merchant, buying in foreign markets, and selling in this country to manufacturers, wholesalers, or retailers. By having goods in stock, he facilitates inspection by the purchaser and is in a position to make prompt deliveries. He assumes the whole merchandising risk, including possible foreign exchange fluctuations, tariff changes, style shifts in some lines, and delays between orders and sales. His business may be financed either directly or through a local factor. Sometimes the import merchant combines exporting with his import business.

In one sense, import merchants may be divided into three broad categories: (a) those who import some class of raw materials, e.g. ores, fibres, etc.; (b) importers who handle food-stuffs of all types; (c) importers who handle finished goods of all types.

Usually import merchants have extensive selling organizations for the promotion of trade with domestic manufacturers, wholesalers, and retailers. Often they grade, sort, assemble, mix, clean, blend, dye, or otherwise process products to suit the requirements of the domestic market. Their activities require a high degree of technical knowledge of the merchandise, whether dealing in raw stables or in manufactured products. They are thoroughly versed in foreign market conditions, the technique of importing, and the domestic demand.

The specialized knowledge and wide contacts of the import merchant offer great advantages to the indirect importer in this country. His skill in obtaining the proper qualities, grades, and styles of merchandise, and his organization for handling shipments and dealing with customs, make him indispensable to the many buyers of foreign goods who cannot profitably import their own supplies directly. As a result of his large transactions and his experience and dependability in the trade, the established merchant is able to secure favorable buying terms and transportation by the most economical and expeditious routes.

The Import Commission House. The import commission house usually acts for exporters abroad, selling their goods in this country on a commission received from the foreign exporter. It may receive goods on consignment from its principals in foreign countries and sell and

account for them after deducting its commission. Or, it may function as a sales agent for the foreign exporter, having him ship and bill direct to the American customer. It may, again, order for importation goods which have been sold, having the goods billed to itself, and then deliver and bill them to its customer and collect and remit the amount due, less commission, to the foreign shipper. Occasionally the commission house buys goods on commission paid by purchasers in this country. Sometimes the operator of such a house may also carry on an import merchant business.

The Resident Agent. The resident agent is a salesman or a firm located in this country representing a seller located abroad. The resident agent sells for the account of his foreign principal, on a commission basis, and solicits business usually from domestic wholesalers, jobbers, and retailers, having specific territory assigned to him. As an agent, he assumes no financial responsibility. Sometimes he represents a number of foreign sellers who make similar but non-competitive goods. He may also receive merchandise in his principal's name and stock it for anticipated sale and delivery, thus becoming in a sense an import merchant. The resident agent is in a position to take care of shipping details and of the technicalities incident to entry of the goods. To establish firm markets for the products he represents, he often assists the domestic seller of the merchandise with advertising and selling campaigns. Since his commission is paid by the foreign seller, his primary interests obviously are those of the foreign exporter.

The Import Broker. The American import broker acts chiefly as an intermediary between the buyer and the seller and seldom handles the actual merchandise involved. Buyers in the United States who are in need of foreign products make their requirements known to the broker, who in turn obtains prices from prospective sellers abroad. He differs from the commission merchant in that he is not involved in the physical movement of the merchandise, nor in its clearance through customs. When a sale is consummated, the domestic buyer receives the goods in his own name and makes payment directly to the foreign seller.

The import broker's function is an important one, particularly when a high degree of technical knowledge is necessary, or when goods of varying grades or qualities have to be obtained from a wide range of sources. Besides a thorough knowledge of supply sources, the broker must be informed on the detailed requirements of the ultimate users of the merchandise in the United States. Generally he is a specialist, handling some one product such as wool, tea, furs, coffee, palm oil, and the like. Often, however, he will act as special purchasing agent for manufacturers or merchants in some particular line. Or, he may purchase supplies in bulk quantity and dispose of them by selling lots or portions before shipment or while afloat.

Importing Wholesalers. Some wholesalers whose primary business is in domestic products engage also in importing. The wholesaler may

import his merchandise through his own import department and work through his agents or buyers abroad, or he may make his purchases from import merchants in this country, or through brokers or resident agents. In the latter case, buying and selling of foreign products is often limited in volume.

The importing wholesaler ordinarily serves the smaller and independent retailer who does not find it practicable to import directly, who needs a ready source of supply, and who frequently is granted credit. National wholesalers who carry a complete assortment of goods often handle both domestic and foreign merchandise. Generally they import products of nonperishable character which may be stocked in quantity and which are not subject to violent price fluctuations or changes in styles. Articles which have wide consumer appeal, such as toilet articles, proprietary medicines, hardware products, and other packaged goods are successfully handled through this channel.

Direct Purchasing

AMERICAN manufacturers who require large quantities of foreign raw or semimanufactured materials, wholesalers, and large department stores, mail-order houses, and other retail outlets, may find it of advantage to circumvent the middlemen mentioned and to obtain all or a part of their supplies through direct contact with producers, merchants, and other suppliers located in foreign countries. Direct purchasing of imported items is increasing particularly among department stores, mail order houses, retailers and specialty shops. The purchasing department constitutes the import department for most manufacturers who import raw materials, as they do not distinguish between domestic and foreign sources. However, an import department may be maintained to facilitate customs clearance. Some manufacturers use the term traffic department for that part of their operations which does the importing.

This practice presupposes a large and steady volume of import business. The chief advantages materialize through a closer touch with the seller and the actual sources of his goods, and often through economies in the laid-down costs of merchandise in the United States. On the other hand, such an importer must be prepared to assume the operative costs, the risks, and the detail incident to import procedure, as well as the loss of advantages in dealing through expert intermediaries of established reputation in the United States.

Direct importers may have first-hand contact with manufacturers or producers, or with merchants, brokers, or other middlemen located in foreign countries. Some very large importers own or control their own foreign mines, plants, or plantations abroad, such as rubber plantations, oil fields, copper and iron mines, banana and sugar plantations, and the like. Again, when purchases are constant and in large volume, and when technical services cannot be handled satisfactorily by foreign middlemen, a permanent branch office may be maintained. Such an office serves as headquarters for buyers when they are abroad, and may

also supervise grading, sorting, preparation of shipments, and the performance of all details of purchase and shipment.

Foreign Buying Office or Branch

With a branch office, the importer is in an excellent position to study market and production conditions, to establish good relations with producers or merchants, to give special attention to the needs of his customers at home, and to take advantage of any unusual buying opportunities which may arise. Very often, however, when markets for the goods needed are well organized, or when the volume of purchases is limited or seasonal in character, the interests of the importer may be as well served by having his own buyers abroad, or by selecting a well-established foreign merchant in the producing country as an exclusive buying agent. There are, in fact, resident buyers and commission merchants who may represent several American concerns in a given market.

Suppliers in Foreign Countries

The direct importing manufacturer or merchant has a choice of several types of contacts in foreign countries which he may use for the purchase of his supplies, including manufacturers or producers, wholesalers, dealers, general exporters, distributors, merchants, agents, and brokers. The selection of the proper source or combination of sources will depend, of course, on individual requirements and policies, the character of commodities bought, and the local trade practices.

The Foreign Manufacturer or Producer. Contact with the actual manufacturer or producer of the goods is often essential, whether purchases are made directly from him or not. A knowledge of his honesty and integrity, and his dependability as the basic source of a continuous supply of standard-grade goods adapted to the demands of American markets, may be extremely important. In many cases the size of individual foreign manufacturing or other producing facilities, and the increasing experience of their managements with export and the nature of American market requirements, makes direct purchasing from the primary producing source quite feasible and very desirable. On the other hand, such direct purchasing often has been found less effective than procurement through middlemen, particularly in the case of foreign manufacturers or producers who are inexperienced with exporting, who are small and widely scattered, and who do not understand the importance of standard quality and continuous supply. Purchase of the products of such producers usually is handled much better through an export merchant or other middleman in the foreign area, or by the importer's local office or buyer in the field, in a position to obtain proper grades or qualities and to assemble products of various producers. Under such conditions, packing, transportation, and the other details of shipments can be handled much more efficiently also.

The Foreign Export Merchant. As in this country, the foreign export merchant buys and sells for his own account, carries merchandise in stock, extends credit, and assumes all financial responsibility. His chief function is to purchase goods from manufacturers and producers of a foreign country, to assemble, grade and pack them usually at seaboard centers, and make them available for export. Often he specializes in one or more lines of merchandise which require expert knowledge. By buying in large quantities, he performs a service which the small importer would find it difficult to perform for himself. Sometimes the foreign export merchant acts also in the capacity of agent, on a commission basis, for both buyers and sellers. Often he conducts an import business as well. Such houses frequently maintain branches in their more important American selling areas. Many importing manufacturers, wholesalers, and retailers in the United States have found the foreign export merchant an extremely valuable source of supply.

The Foreign Broker. The foreign broker is the counterpart of the American import broker, with the principal difference that he is located close to the foreign source of supply. He is engaged by many types of direct importers in the United States for maintaining contact with sources of supply, and frequently also by domestic brokers. Supplies of such goods as wool, rubber, hides and skins, and tobacco are located in many central markets by this means. The broker operates on a commission basis. He does not take title to the goods he handles, and in most cases does not take care of shipping details beyond the port of export.

The Foreign Commissionaire. Instead of using a broker in foreign supply markets, the American importer may engage the services of a commissionaire, who makes purchases for him, assembles the goods, and forwards them upon order. In effect, he is a foreign purchasing agent. His function is similar to that of the broker, but with the important difference that he acts for the purchaser and is paid a commission by him.

The Foreign Manufacturer's Agent. The manufacturer's agent is a selling agent for the foreign exporting manufacturer, paid on commission by the seller, and acting within well-defined authority. He seldom takes title to the goods he sells, and leaves the financing of the order to the manufacturer. Sometimes he maintains offices in this and other countries. He performs most successfully in handling advertised specialties, such as cosmetics, drugs, and jewelry, the principal demand for which must be created by salesmanship.

The American Traveling Buyer. The larger American importers find it of advantage, for many reasons, to have their own traveling buyers abroad. An employee of this kind is authorized to make purchases, or to supervise them, and may travel from country to country as the sources of supply or the seasons demand. Many large importing department

stores and other retail organizations find this practice of particular value, though other types of importers also find such buyers necessary. The traveling buyer usually is a specialist in a limited class of goods and thus is able to maintain a close acquaintance with foreign market conditions as they pertain to his line. This intimate contact and concentration in special lines greatly facilitates location of the most desirable sources of supply and qualities or grades of goods. The traveling buyer often inspects goods before shipment and has authority to make adjustments with suppliers when misunderstandings arise. He may have full authority to enter into purchase contracts, or he may be authorized simply to transmit offers of sellers to the home office for acceptance. Customs of the trade and the facilities he has for communicating with the home office usually determine the authority granted to him. He does not always deal directly with the manufacturer or the producer, but often works through brokers, commissionaires, or merchants in the foreign country.

The Foreign Trade Fairs. Annual or seasonal fairs conducted by foreign industries, countries, or sections of countries are growing in popularity. By these means specialty products are exhibited for attracting the interest of visiting buyers from other countries. Many American importers make it a practice to visit these fairs regularly for the purpose of placing contracts for items new, either in design or utility, to the American market. Such fairs are established channels through which importers keep abreast of changes occurring constantly in the foreign production of specialties and novelties.

Also in the United States the number of trade fairs and exhibitions is increasing, and foreign exhibitors are beginning to take advantage of this opportunity to bring their products to the attention of the American buyer.

Of interest is the recent development of U. S. Government participation in international trade fairs. Such participation appears also to have increased U. S. business interest in attending as well as exhibiting at the many fairs and exhibitions at home and abroad.

See *International Trade Fairs* under Selected References at end of this booklet.

3. *ORGANIZING FOR DIRECT IMPORT*

WHEN THE MANUFACTURER, wholesaler, or retailer purchases foreign materials or manufactured goods through established middlemen in the United States, they experience few elements or procedures which are not common to domestic business transactions. But when the purchasing is done in other markets where languages, conditions, customs, practices, and laws are different from our own, various new elements enter the picture. The greater breadth and diversity of the markets, methods of procurement which are often strange and confusing to the newcomer, more involved procedures in transportation and financing, and customs requirements for the entry of merchandise, all call for careful preliminary study, if experienced specialists are not employed to manage the work. Furthermore, if the importer is making a venture in products the use or merchandising of which are new to him, there is the additional need of careful evaluation of their use and adaptability in manufacturing, or their sales potentialities in domestic markets.

Well-laid plans and a knowledge of all elements likely to be encountered are, of course, prime essentials in the approach to any new undertaking, domestic or foreign, if it is to be permanent and successful. The purpose of this chapter, therefore, is to bring to the attention of the prospective direct importer some of the more important points and sources of information which he should investigate well before making final decisions.

The Record of Import Trade

ONE OF the most important sources of initial information is the record of our import trade. This will indicate the extent to which the commodity under consideration actually is imported by businessmen in the United States. It will show, furthermore, the countries from which it is obtained in greatest volume, and thus the most important purchasing markets. Detailed statistics on imports of individual commodities are compiled and issued monthly, quarterly and annually by the Bureau of the Census of the United States Department of Commerce in various statistical publications.

Figures may be obtained also on commodities exported by foreign countries to other countries of the world. A wise use of this material will aid substantially in giving a broad picture of international trade in the commodity under consideration.

The United States Tariff Commission also has made numerous studies of imported commodities which are of value for indicating the

principal sources of supply, their uses, and their markets in the United States.

The American Market

THE PRINCIPAL QUESTION to be decided by the manufacturer who contemplates the use of foreign materials for his products will be the better adaptability of the materials for his purposes, and, if there are competitive American products, the relative advantages in the cost or utility of the foreign product. He will need to know the extent of the use of such materials by other manufacturers, their specific advantages, and if not used to any appreciable extent, to determine the reasons why and what the prospects in his case might be. He might find that to him the foreign product offers distinct advantages in quality, adaptability, or cost, over a similar or other American product. In the case of most imported raw materials, however, he will probably find that the principal reason for using materials from abroad is an insufficiency in, or lack of, domestic supply. In this connection, an investigation of the practices of other manufacturers who use raw materials of a similar nature will be of particular value.

The merchant who buys abroad for the purpose of direct sale in American markets, to the manufacturer, to the retailer, or to the consumer will, of course, have to provide himself with as much information as possible regarding the existing and potential demand for the foreign product. Such a study will involve all factors included in the ordinary market analysis conducted by anyone who contemplates the introduction or addition of a new article to any line of merchandising. It embraces all considerations connected with the demand and taste of customers or the ultimate consumer, the determination of all cost elements and the profitable sales price, and the competition with domestic or other imported products. If there is an already well-developed market for the article, the facts may not be difficult to determine; but if not, the undertaking will of course contain speculative factors concerned with stimulating demand or acceptance.

Depending upon the character of the product, the distribution of the market geographically, and by the size and class of customers, may be an important consideration. In connection with the element of price, as well as the quality and quantity of merchandise, it should be realized that markets in the United States are highly diversified sectionally. Price and quality which are adaptable in one region may not have strict application to potential demand in another.

The capacity of domestic markets to absorb the goods will, of course, determine one's forecasts as to the possible volume of business which may be done. Obviously, the size of orders will determine the degree to which sellers may grant concessions in price, and thus savings in unit costs which the importer may realize. The larger the business, the greater are the chances of dealing with larger and more financially responsible firms and of receiving more favorable consideration in all respects. Seasonal fluctuations in demand, as well as the lag between

purchase and delivery, however, may have limiting effects on the volume and continuity of the business. No detailed formula can be laid down for guidance in this respect, since the problems faced will vary greatly with the individual product and the peculiar conditions of markets and consumer demand. Background material which may be used for surveys of the domestic market and analyses of major factors affecting the distribution of both domestic and imported commodities within the various areas of the United States are available through commodity and marketing specialists of the United States Department of Commrece. The Department has available also helpful check lists and other material for use in connection with introducing new consumer and industrial products.

Cost Analysis

OBVIOUSLY, one of the most vital considerations in analyzing markets for imported goods is the cost of the merchandise itself, and a determination of the price at which it can be sold or used profitably in this country. In the import operation this is much more involved than in domestic transactions, due to the distance of the source of supply, and the added expenses of having the goods transported and entered at American ports in proper condition. Before he can ascertain the margin of profit available, the buyer must know the actual cost of the goods laid down at appropriate points in the United States.

Besides the actual sales price in the foreign purchasing market, which the buyer may obtain only by direct contact with the supplier or a central market, he must be familiar with all expense which will be charged against his shipment throughout the journey. These expenses will vary considerably according to the kind of commodity, the country of origin, and the method by which he handles the shipment. Present in all shipments, of course, will be rail and ocean freights, war risk, marine, and other insurance premiums, United States consular fees, cable or other communication expense, and documentary fees. There may be commissions or fees for purchase and for inspection. Proper packing and marking for an ocean journey often entail additional expense. On some goods there is the necessity of cleaning, reconditioning, and sampling. There may be also wharfage, loading, warehousing, trucking, and other port handling charges, both at home and abroad. If the goods are dutiable, customs duties are often a very substantial item in the total landed cost. Some classes of imported goods are subject to tax under certain provisions of the Internal Revenue Code of the United States. The proper entry of merchandise in most cases requires the services of an experienced custom house broker, whose fee must also be added, usually $5.00.

The clearance of merchandise through United States customs involves many details which the average importer finds difficult to handle himself. For this reason, it is usually necessary to employ the services of a custom house broker who is a specialist in this field. (See page

40.) Because of the broker's familiarity with all phases of import, the inexperienced importer will do well to avail himself of the advice and guidance of his broker in estimating all charges which may apply to a contemplated order of goods.

Foreign Suppliers

WHEN THE BUYER is doing business directly with export outlets located abroad, he will of course need to have at hand all the information he can obtain on individual firms who handle the product in the countries where he proposes to buy. He may deal directly with a manufacturer or other producer, or through some type of export middleman. He will need to know the customary channels through which the product is handled and the names and addresses of the individual suppliers. Equally important will be adequate information on the extent of experience with the commodity and the financial standing and business integrity of those firms with whom he expects to deal. He should satisfy himself that the seller can be relied upon to furnish a continuous supply of merchandise of the quality desired. This is especially important in the case of raw materials for industry, where regular production schedules and standardized products call for a uniform and steady supply.

Much assistance in locating proper sources of supply and the names of suppliers in foreign countries may be had through services offered the importer by the Bureau of International Business Operations of the United States Department of Commerce. Lists of manufacturers and other producers, and many types of exporting middlemen, classified by countries and commodities, are available, and special listings will be made upon request. This Bureau receives also the names of foreign producers and exporters who report to American Foreign Service officers abroad their wishes to sell their products in the United States, and these leads are made known promptly to prospective buyers. They are published likewise in current issues of the *Foreign Commerce Weekly,* issued by the Bureau. Opportunities are secured often through foreign chambers of commerce in this country, American chambers of commerce abroad, and lists published in certain foreign-trade journals of interest to importers. Suppliers which appear to be promising may be checked for reputation, type of organization, capital, credit references, and general sales data through World Trade Directory Reports compiled by the Bureau of International Business Operations on the basis of special information received from the American Foreign Service officers. Similar information may also be obtained through established credit agencies through their foreign branches or correspondents.

Although it is possible to obtain lists of producers and other exporters of a product in all important foreign markets, and much information on financial responsibility and methods of operation, from sources in the United States, it is obvious that much more satisfactory

results can be obtained in many cases if it is possible for the importer to send representatives abroad to study the field. In this way actual conditions can be investigated on the spot and more satisfactory connections made.

The foreign departments of many banks of the United States constitute a very important source of information on the credit standing of foreign suppliers. Because of their extensive organization and connections abroad and the part they play in the promotion of international trade, these departments have built up extensive files on the business performance of exporters and importers in foreign countries which they can make available to foreign traders. They perform a valuable service also in assisting importers to locate proper sources of supply for the goods they seek and in providing many kinds of advice concerning the technique of foreign trading.

Credit and Capital

GETTING A START in the import business requires the same preparation from a capital and credit point of view as it does in any other business. No matter how small the volume of business expected, the prospective importer must be able to establish a good credit position. Foreign exporters cannot be expected to enter into sales contracts with American concerns, unless the American purchasers can prove that they are receiving drafts or open account terms from other overseas suppliers, or, unless there is little or no financial risk involved. The best basis of proving reliability, of course, is a good record of meeting obligations and permanency in business operation. This may present difficulties for the beginner, unless importing is conducted as an adjunct to other established business in which reliability has already been proven. Foreign exporters maintain credit files on American importers, just as we in this country do on foreign importers.

Even if he is acting in the capacity of a mere selling agent, a fair amount of operating capital will have to be maintained. If he expects to buy and sell on his own account, it will be necessary of course to maintain a substantial line of credit. This must be sufficient to cover his intial business operations, and at the same time to provide for office expenses, salaries, living expenses, traveling, cabling, and other costs incidental to the business, for a certain time until profits are forthcoming. Some losses may also have to be absorbed, and claims due to receipt of inferior merchandise may have to be settled. His domestic customers will have to be satisfied according to their contracts, and some credit may have to be extended to them. Unless an adequate capital structure adapted to the particular type of business can be provided the venture obviously is apt to fail. If the initial period is weathered, inquiries of foreign sellers directed to the importer's bank should meet with favorable response.

Import Organizations

THE NATIONAL Council of American Importers, Inc., 111 Fifth Avenue, New York 3, New York, is the principal national association of importers in the United States. The Council's active members consist of importers of a wide variety of raw materials, semimanufactured goods, and consumer goods. It is a nonpartisan commercial body financed solely by membership dues. It is concerned with all developments affecting import trade, including such problems as customs administration, reciprocal trade agreements, import financing, transportation, insurance, and international communication. It has close relationship with other foreign trade organizations, including chambers of commerce and many commodity trade groups in the import field. Periodic bulletins are issued which keep the membership informed on all major developments.

Importers of specific classes of goods are frequently organized also as trade associations.

Many chambers of commerce throughout the United States maintain foreign trade or world trade bureaus or departments whose activities are directed specifically to the interests of local exporters and importers. Because of the increasing importance of import trade, there is a trend toward the establishment of special import divisions within these bureaus, such as that of the Commerce and Industry Association of New York.

Many importers are associated also with the National Foreign Trade Council, 111 Broadway, New York 6, New York, which may be considered the spokesman for American foreign trade and investment generally. Its membership represents varied groups concerned in different ways with exporting and importing. Included are manufacturers and producers, exporters and importers, and railroad, shipping, air transportation, banking, insurance, and other interests. Its varied activities are directed toward the solution of important foreign trade problems, making investigations and surveys, and providing trade information and service in numerous ways for its membership.

Various other agencies, both public and private, are organized to serve the interests of importers in different ways. These are mentioned at appropriate places in the text and reference notes. Among the United States Government agencies figuring prominently in this respect are the Bureau of International Business Operations of the United States Department of Commerce, the Department of State, the United States Tariff Commission, the Treasury Department, and the Department of Agriculture. In the private field, information and organized services of varied kinds are available through foreign departments of banks, credit agencies, foreign trade magazines and periodicals, American chambers of commerce abroad, foreign chambers of commerce in the United States, the Chamber of Commerce of the United States, and the International Chamber of Commerce.

4. *THE IMPORT ORDER*

THE IMPORTER who buys directly in foreign markets will find it necessary for his own protection to comply strictly with certain practices and rules which are peculiar to trading abroad. Foreign buying may be differentiated from domestic buying principally by distance, the added difficulties of procurement, the necessity of having to anticipate seasonal requirements on many classes of goods much further ahead than in domestic business, the technicalities involved in having merchandise cross international boundaries, and the detail incident to the many steps in transportation it must take in its journey to the ultimate destination. It is always necessary, therefore, that the buyer and the seller be in complete agreement regarding the terms of sale well before a shipment is started on its way.

Essential Considerations

BESIDES the actual price of the goods on the premises of the seller, the purchaser must know, for instance, the portion of transportation and other costs incident to the shipment which will be borne by each party. He will want to assure himself that the goods are properly packed to withstand the rigors of ocean transportation and incidental loading and handling. He may wish it understood that they are to be shipped so as to reach the designated American port by a certain time and by a specified steamship or air line or overland route. He may wish to arrange for inspection of the goods before shipment, or to be given the opportunity to do so on arrival at the American port before acceptance. He will need to agree definitely on the method by which he will pay for them, whether by opening a letter of credit or by other means, how drafts are to be drawn, and the time allowed to meet their payment. Many other conditions may need to be specified, varying according to the type of goods purchased.

The terms of sale may be those laid down by the purchaser's order and accepted at once by the seller, or they may be modified in certain details through subsequent negotiation. When the order is accepted by the foreign exporter, however, it becomes a contract binding on both parties. An import purchase order combining all terms and conditions of the transaction is used with each importation, except where goods are obtained on a consignment basis, regardless of whether or not any other contract exists between the buyer and the seller.

Some of the most important matters to be taken care of in starting a shipment from foreign shores are assembling, inspection, packing, marking and labeling, weighing and measuring, preparing the shipping documents and invoices, arranging for rail transportation and other

cartage and handling, and booking vessel space. These details may be carried out by the exporter according to instructions given by the importer in his order, or, if the importer maintains his own organization or representative abroad, such details may be arranged or supervised by them. In many countries the services of local foreign freight forwarders are utilized to great advantage in the preparation, documentation, and dispatching of shipments. When trade with a particular foreign exporter is continuous, there may be standing instructions as to procedure in all stages in the movement of the shipment, which may be altered or supplemented from time to time as special situations arise.

In foreign trade, as in domestic business relations, the basic foundation of most successful trading is mutual trust between parties of integrity and reputation for honest dealing. But even when such a desirable condition exists, difficulties are always imminent because of loosely-made or incomplete agreements. Contracts perfectly drawn and understood by both parties will go far toward reducing to a minimum the chance of disappointment, loss, or often controversy and litigation.

Since by far the major portion of commodities imported into the United States consists of vessel cargo, the discussion in this and following chapters is directed primarily at procedures involved in this mode of import, although some minor differences in shipping details and other matters may be found in the case of imports by air or by overland methods.

The Quotation

IN FOREIGN TRADE the quotation includes not only the price at which the goods are offered to the buyer, but also various other conditions of a sale, such as the method and terms of payment, the currency in which the quotation is made or in which the goods are to be paid for, the quantity and quality of the goods, the time and place of delivery, methods of transportation, and other conditions. The quotation is a condensed form of a possible sales contract and defines the responsibilities assumed by each party in case it is accepted.

Price

Price quotations usually define the use of quoted prices as net prices or list prices subject to discount. A net price is a quotation not subject to trade or quantity discount, while a list price is one published by catalogue, price list, or advertisement as a basis for computing an actual or net price which the exporter extends to certain importers or types of buyers, or buyers in particular markets. This distinction is of particular importance to importers of finished products rather than to those of staple commodities. List prices permit ready publication of prices which can be used for extended periods of time. They furnish a price basis and indicate generally the exporter's price level. In case his

policy involves selling at different prices to different classes of buyers, the list price forms a basis to which trade discounts may be applied.

Currency of Quotation

An important point in import transactions is agreement on whether the price quotation will be in terms of United States dollars or in terms of the currency of the exporter's country. This has a bearing on possible risks which the buyer in the United States will have to assume because of possible exchange rate fluctuations. Most frequently, the buyer will wish the quotation in his own currency, particularly if the exchange rates of the country in which he is purchasing are subject to wide fluctuation. If the quotation is so made, one of the elements of uncertainty in the transaction is eliminated for the buyer. Sometimes, however, the foreign seller for good reasons will refuse quotation in dollars. In order to do business, therefore, the buyer is compelled to take the risk and meet the draft when presented at the current rate of exchange. He may protect himself, however, by purchasing forward, from his bank, the foreign currency he will need for delivery at the approximate time of receipt of the goods by him. The foreign seller, on the other hand, may be quite willing to quote prices in the currency of the importing country when he sees sufficient advantage in the promotion of his sales. The way in which the price quotation is made will vary, of course, with the type of commodity being purchased and the prevailing customs in different trades.

Weights and Measures

The weights and measures by which goods are purchased also call for careful definition. Quotations may be made on the basis of specific units of merchandise or on the shipment as a whole. The more common usage is a definite unit of which the quality is clearly defined. However, the weight and measurement systems of many countries differ greatly from our own, and misinterpretations of meanings and resulting confusion are very common except where care is exercised. The buyer will do well to acquaint himself fully with the systems used in the countries in which he deals and have an understanding of the United States equivalents. It may be advisable in some cases to have the seller indicate in his quotation his own understanding of the United States equivalents. In any case, before final contracts are made, there should be full agreement on the meanings of all terms referring to quanity, weight, volume, length, or surface. Moreover, there should be clear understanding as to whether price applies to gross weight of the article plus packing, or to the net weight, and whether weight at the shipping point, delivery point, or other point, shall govern.

Quality Guarantees

Another vital matter which must be given due consideration in the quotation and purchase contract is clear specification and control of

quality or grade of merchandise. Sometimes foreign suppliers do not understand fully the necessity of standards in our economy, and thus are careless of uniformity in quality. In other cases where standardization is appreciated, standards which differ materially from our own may exist. To avoid costly mistakes from non-conformity in this respect, precaution must be taken to see that quality specifications are clearly set forth and complied with. Methods used obviously will vary with the type of commodity purchased and the ordinary designations and practices of particular trades. Sales of many classes of goods in established markets are made on the basis of well-regulated grades, types, standards, percentage of mineral or other content, brands, or makes. In such a case the importer may be sufficiently assured of obtaining desired qualities.

In other cases, a common form of guarantee is to provide for inspection and acceptance of the goods before they are shipped, by an employee of the buyer abroad, by a foreign correspondent or agent, or by a foreign inspection firm specializing in that work. Under such agreement, an inspection certificate signed by the authorized inspector must accompany other documents covering the shipment. Another way may be through the submission of samples which are described or otherwise identified in the order, to which the goods must conform. A duplicate sample may be sent also to the buyer's inspection agent, who compares the goods with it and gives his approval. In still other instances, where standardization is difficult, the buyer may wish to reserve the right to make inspection arrival of the goods in the United States before making payment. Such privilege is possible of course only when this procedure has been agreed upon at the time the contract is made.

Many commodities may enter the United States only after Government inspection, tests, or treatments, in order to guard against the importation of articles and materials which if not regulated might be detrimental to the public welfare, or the entry of which might introduce diseases or pests. Included in this category are food products, drugs, cosmetics, plants and products, animals and animal products, insecticide materials, and others. (See page 49.) Legal standards stipulated by various Acts of Congress govern the conditions of their entry. In addition to goods which must conform to certain specifications or standards to be allowed entry into the United States, there are a number of commodities mainly of animal or vegetable origin which are completely excluded from entry. Examples of these are, for instance, cattle or sheep originating in countries in which rinderpest exists, certain plants subject to specific diseases, or, all commodities which are produced with convict labor.

Purchase contracts for goods which may be subject to special restrictions or regulations may be so drawn that the buyer's commitment to accept them will be contingent upon their successful passage at this end.

Foreign Trade Definitions

In foreign trade quotations, many of the conditions of sale are indicated by a series of abbreviations having standard definitions, such as f. o. b. (free on board), f. a. s. (free along side), c & f. (cost and freight), and c. i. f. (cost, insurance, freight), with named points or ports to which they apply. There are variations within each of course to suit the particular circumstances of each transaction. The detail of each form and the differences between them prevent adequate summarization here, but their defintions are readily available from many sources. In general, such terms specify clearly the duties and responsibilities of both the buyer and the seller in respect to delivery of the shipment, and the costs and risks to be assumed by each. The forms used are dictated by specific agreement between the buyer and seller, or by established custom in a particular trade or commodity.

The definitions of these terms should be a subject of careful study by the importer. Differences of interpretation on the part of the buyer and seller have been common and have led to much misunderstanding, confusion, and dispute. However, uniformity of interpretation has been greatly enhanced through standard definitions adopted by a Joint Committee representing the National Foreign Trade Council, the National Council of American Importers, and the Chamber of Commerce of the United States, and issued under the name of *Revised American Foreign Trade Definitions—1941*. They are recommended for general use by both importers and exporters. Increasing acceptance of them has made for greater uniformity of interpretation and the avoidance of much disagreement. Copies of the definitions, with notes and comment concerning them, may be obtained from the National Foreign Trade Council, 111 Broadway, New York 6, N. Y., at ten cents apiece. They have no status at law, unless there is specific legislation providing for them, or unless they have been confirmed by court decisions. It is always advisable, therefore, that they be agreed upon voluntarily by the seller and the buyer and be specified in all contracts as governing the conditions of purchase or sale. In this way, they become legally binding on all parties concerned in the transaction. Other standardized definitions are known as the *Warsaw-Oxford Rules* adopted by the International Law Association as suitable for voluntary acceptance governing c. i. f. contracts, and *Incoterms—1953* of the International Chamber of Commerce, the latter being a set of international rules for the interpretation of trade terms.

Method of Payment

The purchase contract obviously will set forth the specific terms and methods of payment. Cash prices, of course, presuppose settlement before shipment, at the time of delivery, or shortly after delivery. If a period of credit is granted the buyer on the cash price, he usually is required to pay interest when final settlement is made. It will be found that in general practice the various groups of commodities have fairly

well-established forms and methods of payment, regardless of the credit standing of the buyer. Merchandise which has a ready market in the United States, and which is not subject to wide fluctuation in price, is sold frequently by sight or time drafts. Specialties, or other goods which may fluctuate greatly in price, are sold usually against a letter of credit. Sometimes business is done on open account, on a consignment basis, and, less frequently, by cash with the order. The various methods by which payment is effected are discussed in the next chapter.

Other Terms of Purchase

THERE ARE of course other conditions which the import contract may stipulate in order to guard against misunderstanding and ensuing difficulties. These will vary according to the individual importer's needs and policies. There may be a condition in the order, for instance, that the merchandise purchased must conform to specifications or samples, and if not, that it will be rejected and held for the account of the exporter at his expense and risk.

Another condition might be that the order is not to be filled in greater quantity, nor at higher prices, than called for in the order without previous approval of the importer. The buyer may wish to reserve the right to cancel the order or reduce the quantity if not shipped by a specified date. This is particularly important where the importer has made a firm contract to supply his domestic customer within a definite time. The terms may state, further, that failure of the exporter to carry out all instructions regarding documents, markings, packing list, etc., may make the shipment subject to additional customs duties or fines, storage, and other charges which may arise from such failure. It may be necessary to make provision that all taxes which are levied against the goods before they leave the country of origin be borne by the exporter. Again, on such commodities as are subject to entry only after they have conformed to provisions of the food, drug, or other similar United States Government laws and regulations as to standards, it may be desirable to inject as a part of the terms that the goods shall meet the prescribed standards, and that acceptance and payment will be contingent on inspection and passage at this end.

On single purchases which may involve but one delivery, the ordinary import purchase order is usually sufficient to cover all detail. However, if the purchase arrangements involve shipments of merchandise which are to be delivered at various times or in certain installments, a separate or spot sale contract may be necessary. This is especially important if specifications are detailed and complex and if the terms of payment vary according to changing conditions. The product, for instance, may be one in which the percentage of content or weight is not uniform, the final settlement being made on the basis of analyses or tests made after the shipment has arrived in this country. In such a case the agreement may be that the supplier can collect a certain

portion of the estimated value of the cargo at the time it is shipped, final settlement being made after the results of the tests or analyses are known. A contract of this kind may be made in the event the importer agrees to purchase the total output of a mine, for example, or if he receives large shipments from various producing facilities, having the merchandise delivered in periodic installments.

Again, the importer may wish to enter into a distributor agreement with a foreign supplier, contracting to sell his product in the United States for a period of years. In this case the contract may be somewhat complicated and call for expert legal advice. No typical example can be given, but such a contract will contain in a general way the usual items of the import order, agreement on the kinds of articles to be sold, the term of the contract, and the territory to be covered. A section regarding prices may provide that during the term of the agreement the supplier will sell to the distributor at prices agreed upon from time to time, and that the supplier may change or withdraw prices at any time, the distributor being protected on any negotiations which already have been quoted upon at the time the notice is received. Usually there are clauses protecting the supplier against any responsibility or liability for losses or damages due to unavoidable causes or causes beyond his control, and protecting the distributor from any infringement of patents which may be brought against him arising from his sale of the products.

Arbitration

THE IMPORTANCE of a recognized standard arbitration clause in purchase contracts, and in the importer's domestic sales contracts as well, should not be overlooked. This method of settling disagreements, which are always likely to arise despite best efforts to prevent them, has become increasingly general in use. Care should be taken, of course, that the clause fits properly the peculiar conditions of each contract. Mere reference to arbitration as a method of settling disputes, or loosely-worded language conferring no jurisdiction on individuals or organizations undertaking the arbitration may be worse than useless, and should be avoided. Arbitration organizations in the United States are able to furnish all necessary information on standard clauses used and those applicable to particular circumstances. These are: the Inter-American Commercial Arbitration Commission, the Canadian American Commercial Arbitration Association, the American Arbitration Association, and the International Chamber of Commerce. In the case of some imported commodities, the import trade association has arbitration facilities generally used by suppliers and importers in that trade. A useful pamphlet on this subject is available from the Chamber of Commerce of the United States, and is entitled *The International Trader and International Commercial Arbitration.*

Packing

IN OVERSEAS shipping the proper internal and external packing or other protection of merchandise is a very important matter to be considered.

The purchaser naturally wishes to receive his goods in prime condition for sale or use. Proper protection will reduce to a minimum the liability of breakage, spoilage, leakage, theft, and water or bilge damage. Depending on their character, goods are shipped in cases, drums, carboys, bags, bales, or in bulk form. Many transfers of the goods may be made throughout the different stages of the journey. In these transfers, and aboard ship, they are subject to dropping, shifting, damage by water, and damage or spoilage by excessive heat or atmospheric moisture. In loading and unloading, either by crane or by hand, they may be subjected to very rough handling. Flimsy cases or other shipping containers, or containers in damaged condition, are an invitation to thieves. Strength or reinforcement of cases and containers obviates loss or damage due to handling or to pilferage. Protection by the use of waterproof coverings or linings avoids damage from water or moisture. Metal goods subject to damage by rust or corrosion are often coated with slushing componds. If the product is of a fragile or perishable nature, careful packing is of course of unusual importance.

Many foreign exporters are thoroughly experienced in the requirements of good packing, consistent with shipping economy, and fully realize its importance. In other instances, however, this is not so. In such cases, and possibly also in other circumstances, the importer will wish to specify his own packing methods in the order. Since packing and packing charges are construed by the Tariff Act of 1930, as amended (Section 504), as forming part of the value of the merchandise, importers sometimes are led to discount risks by allowing poor or insufficient packing. This, of course, often turns out to be false economy. Although the proper packing procedure may have to be learned through actual experience, the importer may learn much about accepted forms from research which has been carried out in this country in connection with packing for export. Publications giving the results of this experimentation have been issued by the United States Department of Commerce, and by private writers on the subject. For shipment by air and by overland routes, particularly where they are of short duration, many modifications of the overseas practices are possible, and desirable also from the point of view of economy.

Marking

THE UNITED STATES customs regulations provide that articles of foreign origin, or their immediate containers, with a few special exceptions, be marked in English with the name of the country of origin. Such marks must be put in a conspicuous place, as legibly and permanently as the article will permit, so as to convey the information to the ultimate purchaser in the United States. According to the nature of the goods, this may be done by printing, stencilling, stamping, branding, labeling, or by any other reasonable means which will not cause injury to the goods. Merchandise not so marked becomes subject to a duty of ten per cent *ad valorem,* whether or not the article is exempt from ordinary customs duties. Such merchandise, unless re-

exported or destroyed, must be properly marked in custody of the customs before final liquidation of the entry can be made. The quantity, number, or measurement of the contents must also be indicated on the outside covering of packages or containers when the goods are customarily sold to purchasers in the United States in that form. Instructions as to proper markings of merchandise are set forth in *United States Customs Tariff;* which may be consulted readily in the *Custom House Guide,* referred to at the end of this chapter. Certain products containing woolen fiber are subject to labeling requirements of the Wool Products Labeling Act of 1939. Text of this act is available from the Federal Trade Commission, Washington 25, D. C. Labeling requirements of the United States Food, Drug and Cosmetic Act are available from the Food and Drug Administration, Department of Health, Education and Welfare, Washington 25, D. C.

On the outside of shipping cases or other shipping containers, the importer will wish to follow a system of marking to facilitate shipping and handling, and to prevent undue publicity of the contents and of the consignee or consignor. Certain easily distinguished symbols or shipping marks are generally used instead of the full name of the consignee or his customer. These usually are in the form of letters or initial. Under this appears the name of the destination of the goods. Initials or numbers are used also to indicate the name of the shipper or producer. Case serial numbers, lot and order numbers, and weight and measurement figures are likewise indicated. Case markings should be conspicuous and be done with permanent materials.

Import Documents

FOR THE PROPER dispatch, transportation, and entry of import shipments, various documents must be prepared by the foreign supplier, by the importer's representative, or by a freight forwarder. Each document serves an important function in the efficient movement of the goods in all stages from the original source to the final destination, and in clearance at United States ports. Their number and character will vary, of course, with the nature of the goods and the terms and conditions agreed upon in the purchase contract.

Invoices

One of the essential documents pertaining to an import shipment is the commercial invoice. This invoice is a complete record of the transaction between the buyer and the seller. In its basic features it differs little from the commercial invoice used in domestic transactions, but because of greater detail it is often more complex. Although of primary concern only to the buyer and seller, it is of importance also to any third party who may have an interest in, or right to determine, the value of a shipment, such as a bank or an insurance company.

The commercial invoice must be distinguished, however, from the special customs invoice, which is a document required by the United

States customs for the proper appraisement of imported merchandise. The special customs invoice is required in connection with the entry of every shipment consisting of articles having an aggregate value exceeding $500, and subject to an *ad valorem* rate of duty depending in any manner upon its value. It is made out according to detailed official regulations and must be filed with the Bureau of Customs on entry of the merchandise.

The Tariff Act of 1930, as amended, and U. S. Customs Regulations lay down specific instruction on the items which must be contained in invoices of imported merchandise. Their general nature, without extended definitions and qualifications of the official text, may be indicated broadly by the following: the point of entry to which the merchandise is destined; the time when, the place where, the person by whom, and the person to whom the merchandise is sold or consigned; a detailed description of the merchandise, including names by which it is known, its grade or quality, and marks, numbers, or symbols under which it is sold in the country of exportation; the marks and numbers of packages in which it is packed; quantities in weights and measures of the country from which shipped; the purchase price of each item; all charges upon the merchandise, itemized by name and amount; the kind of currency; all rebates, drawbacks, and bounties allowed upon exportation of the merchandise; and any other facts deemed necessary to proper appraisement, examination, and classification. For complete detail concerning invoice requirements, the reader is referred to sections 481 and 482 of the Tariff Act and Part 8 of the Customs Regulations, which may be consulted in the *Custom House Guide,* and the *American Export and Import Bulletin* which brings the *Custom House Guide* up to date on a monthly basis.

Statement of Charges

In addition to the cost of the goods themselves, the import order should call for inclusion with the invoice a statement of all charges, so as to permit determination of the total cost of the shipment delivered in this country. This paper shows the total invoice cost of the goods and all fees and charges connected with the shipment of the goods out of the country in which they were obtained. Such charges, according to the nature of each case, may include inland freight to the foreign seaboard, cartage, warehousing, insurance premium, packing costs, United States consular fees, loading charges, forwarding fees, inspection charges, purchasing fees, stamps on documents, charges for reconditioning or repacking, foreign exchange charges, cablegrams and postage, and export duties.

Packing List

The packing list is a paper showing, item by item, the contents of containers or cases to enable the receiver of the shipment in the United States to check the contents of the shipment. It should show accurately

the contents of each package, with weights and measurements. Properly executed packing lists facilitate movement of the goods through all stages of the journey, and prevent needless unpacking and repacking.

Inspection or Analysis Certificate

Another commercial document which the importer may require as to certain kinds of goods is a certificate of analysis, which guarantees the goods by analysis or inspection. He may wish this certificate to satisfy himself as to the character of the goods, or it may be required by a bank interested in the transaction, or by the importer's customer. Sometimes transportation companies and insurance companies request such certificates in order to have proper evidence of the value of the shipment. The necessity of analysis certificates will be determined by the character of the goods and the customs in the trade.

On some classes of goods special documents are required at the point of origin to assure purity or to guard against the importation into the United States of products which would be injurious to health and the public welfare. Foodstuffs, cosmetics, and drugs, for instance, require certificates to meet standards set up by the Food and Drug Administration. Meats, hides, other animal products, and fertilizers, require Bureau of Animal Industry certificates at the point of origin. Other goods may call for disinfection certificates. Works of art, antiques, some liquors, and other classes of goods require special certificates. Such goods and instructions concerning them are set forth in Part 12 of the customs regulations.

Bill of Lading

The ocean bill of lading is a final receipt given by the steamship company for the merchandise delivered to it, and a contract with the shipper for transportation of the goods. It specifies all terms and conditions of carriage, and among other items shows the name of the shipper, the vessel, the character of the goods, their weights and measurements, the destination, and the name of the consignee or other person to be notified on arrival. It may be a "received for shipment" bill of lading, issued for a named vessel on which space has been previously reserved, or an "on board" bill of lading, issued only after the goods have been loaded on a vessel.

Ocean bills of lading, issued in multiple copies, may be either "straight" or "to order." The former are non-negotiable documents, usually specifying the name of the shipper and the consignee, who may be the actual importer, his authorized agent, or his customs broker or factor. In such a case, surrender of the original copy is not necessary for delivery of the goods unless it is required for identification. Generally they are used only where drafts are drawn. "To order" bills of lading, on the contrary, are negotiable and are endorsed by the consigner, either in blank (specifying no party), or to a particular party.

They allow transfer of ownership of the goods by such endorsement as a matter of convenience or expediency. Surrender of the original copy, properly endorsed, is necessary for delivery of the cargo.

There are three general types of bills of lading as they relate to different stages in transportation. Rail or other lading is necessary to carry the goods to seaport from foreign points of origin, and also to transport them from the American port of arrival to the point of ultimate use. Sometimes the foreign rail lading is combined with the ocean lading and is known as a through bill of lading. Ocean ladings may be either local or through, the local lading being used for shipments between common points touched by a vessel and covers only the ocean haul. The through ocean lading covers movement from the foreign seaport to an interior destination in the United States.

Insurance Policy

The marine insurance policy covering protection of the goods while in transit is another essential document. The coverage which may be provided by a marine insurance policy varies to a considerable degree, from the limited coverage of marine perils such as stranding, sinking, fire, and collision, to broader named perils which could include such risks as damage by sea water, contact with other cargo, theft, pilferage, and non-delivery, and finally to the broadest coverage—"All risks of physical loss or damage from any external cause." However, the marine policy does not cover loss caused by inherent vice, which means deterioration or spoilage due to an inherent defect in the merchandise, delay or loss of market. The insurance of overseas shipments is a highly technical matter and one on which the inexperienced importer should seek the advice of well-established and reliable insurance companies or insurance brokers or agents.

Most cargo insurance written today for active importers or exporters is under what is known as the open or floating policy, which is an open contract between the insurance company and the importer or exporter in which the insurance company undertakes automatically to protect, in accordance with the policy conditions, all shipments. In export trade, in order to complete the essential shipping papers, a special policy or certificate is issued for each shipment made but this is not necessary in the import trade. A declaration of insurance is filed with the insurer for every shipment as soon as all pertinent data in connection therewith are known to the insured. This information may not be at hand until the shipment has arrived, but the automatic attachment feature of the open policy protects the importer or exporter.

Forwarding of Documents

A MATTER which may cause much inconvenience and expense to the importer is failure of the shipper abroad to dispatch all documents required for taking possession of the goods so that they will be available to the buyer or his bank at or before the arrival of the carrying

vessel. Quite often, for instance, drafts arrive with incomplete documents, and sometimes the goods will be available before receipt of the draft and accompanying bill of lading giving title to the goods. Merchandise not cleared through customs within a limited time, usually forty-eight hours after arrival of the vessel, may become subject to forced storage under Government general order. The absence of documents, or improper documentation, may impose upon the importer the necessity of giving customs bonds for their eventual production. It is advisable that the importer make this matter clear to the shipper, with instructions that if the documents do not go forward on the vessel carrying the goods they must be dispatched by faster vessel, or by air mail. He may likewise find it of advantage to specify in his order that all costs incident to late arrival of the documents shall be met by the exporter if he is clearly at fault.

5. *IMPORT FINANCING*

THE METHODS and forms of financing import shipments are similar in general to those employed in connection with exporting, discussed in Chapter 5 of Part II, with the various operations reversed. In most common use are import letters of credit and straight drafts, although in some cases business is done on a purely cash basis and also on open account.

Import Letter of Credit

THE IMPORT letter of credit usually issued in United States dollars is a widely-used method of financing import shipments. In order to secure the most favorable prices in foreign markets, American importers often find it necessary and to their advantage to have letters of credit opened in favor of the suppliers. This is particularly true in the purchasing of raw materials, adaptable to standard grade classifications, which ordinarily constitute the bulk of our imports. The import letter of credit, therefore, offers a very satisfactory means of arranging payment, both to the buyer and to the seller. It permits the seller to obtain value for his draft and documents when the shipment is made, it enables the buyer in good standing to obtain credit in financing the transaction by using the purchased goods as security.

In nearly all cases the irrevocable letter of credit in favor of the foreign exporter or shipper is used. The revocable form is seldom employed. The commission charged by banks for the issuance of a letter of credit will vary with the tenor of the drafts drawn thereunder and the currency in which the credit is available. If credits are issued available in foreign currencies, the burden of the exchange risk falls of course on the importer.

In establishing a letter of credit, the importer applies to his own bank for a specified amount in favor of the seller abroad. The particular form used and the variations in details in any particular case depend of course on the terms of sale which have already been agreed upon by the buyer and the seller. The importer stipulates the documents which the foreign seller must attach to drafts against his credit, the duration of the credit, the tenor of drafts to be drawn, on whom they are to be drawn, when shipments are to be made, and all other particulars in the transaction. Generally, American importers carry their own insurance under an open policy, but if this is not the case the letter of credit application should state the nature of the insurance document and what risks are required in addition to the usual marine risk.

Documents usually required are bills of lading, the shipper's invoice, the consular form which is now to be signed by the shipper only, and, when the shipper provides for insurance, the insurance policy or cer-

tificate; but any other required documents, such as inspection, weighing, analysis, or fumigation certificates, also should be included in the terms of the credit. It is important that all terms and conditions be consistent with the underlying sales contract, for once an irrevocable letter of credit is issued, it cannot be modified or cancelled without the consent and agreement of all parties.

Upon the issuance of an irrevocable letter of credit, the foreign exporter has an obligation by the opening bank in this country to honor drafts when drawn and negotiated in strict accordance with the terms of the credit. Generally, the subsequent procedure is as follows: the exporter attaches all required documents to a draft and submits them with the letter of credit to a foreign exchange bank in his locality. If all details are in order, and the draft is drawn at sight, the bank pays the shipper the equivalent of the draft in his own currency at the rate for negotiating such drafts. The foreign exchange bank note, on the back of the letter of credit, the amount of the negotiation, returns the credit to the shipper, and forwards the draft and the documents to its correspondent in the United States for presentation to the issuing bank. Or, it may send the draft and documents directly to the issuing bank.

If all documents are in order, the issuing bank then reimburses the foreign bank, or accepts it for future payment, according to its tenor. If the letter of credit is available on a sight draft, the importer in this country must reimburse the bank immediately, and receives from the bank the shipping documents which enable him to secure delivery of the goods from the steamship company upon their arrival. If the letter of credit provides for drafts at 30, 60, 90, or 120 days sight, the bank is not obligated to remit to the foreign bank until the maturity fixed by its acceptance of the draft. This period signifies also the final date by which the importer must make reimbursement to the bank. The terms of reimbursement, obligations concerning the delivery of documents, and all other matters relating to the issuance of the letter of credit are, of course, a matter of agreement between the importer and his bank at or before the time the credit is issued.

Sometimes a consignment of goods will arrive and documents will be required by the importer before the maturity of an accepted draft. To meet such a possibility, the letter of credit agreement may provide that prepayment of the obligation be made by the importer, in order that he may receive the documents and obtain the goods, or, that the bank will surrender the documents without immediate payment providing the importer signs a "trust receipt." Under the latter method title to the goods remains with the bank and the importer obtains them as trustee, agreeing to hold the goods or the proceeds thereof at the disposal of the bank, and to pay the proceeds at or before the maturity of the accepted draft.

Revolving Letter of Credit

IN MANY CASES, where importers of standard-grade commodities buy regularly and in large volume through the same sellers or agents,

arrangements for special credits for each purchase become burdensome. Under such conditions the revolving letter of credit is often used. A credit of this kind enables the seller to draw, as specified in the terms of sale, as he would in a regular letter of credit, with the difference that amounts drawn by the beneficiary will become reavailable upon receipt of advice to that effect. Thus, the credit is replenished under specific conditions and the seller or agent always has funds available to the extent of the credit without undergoing delay incident to opening separate straight credits. Revolving letters of credit are established in differing ways, according to agreement. For instance, a credit may be issued over an extended period, with drawings thereunder to be made for a specified maximum amount periodically, say weekly or monthly. In another case, the revolving credit may renew itself up to the original amount set each time a portion of it has been drawn against by the exporter. By this means, the original amount is replenished automatically until the final cancellation date named in the credit.

Straight Drafts

THE STRAIGHT DRAFT method for financing imports is used also very commonly. By this means, the buyer specifies in his contract that the foreign seller may draw on him either at sight or a stipulated number of days after sight. The documents giving title to the goods then will be released to the buyer either upon payment of the draft, if drawn on documents against payment terms, or, upon his acceptance of the draft if it is drawn on documents against acceptance terms. This, of course, requires final payment in the United States. The type of draft in most general use is the documentary draft, or one accompanied by shipping and other documents necessary for the entry and procurement of the goods on arrival. If sent through a bank, it is accompanied by instructions to deliver the documents to the buyer only upon payment or acceptance of the draft. A draft without these documents is known as a clean draft, in which case the documents giving title to the goods are sent directly to the buyer, the seller taking the risk that the draft will be duly honored when presented and paid when due.

Many foreign exporters do not favor this method of financing, because of disputes which may occur incident to discrepancies in descriptions, quality, or price of the goods, or in the shipping documents themselves. Such difficulties are not so likely to arise with the use of import letters of credit, where the importer gives exact directions as to how the shipment is to be made, and where the correspondent bank abroad is virtually his agent and endeavors to see that his requirements are fully complied with.

Cash With the Order

SOMETIMES goods are imported by remitting cash, usually by bank demand draft, before shipment is made by the exporter. Transactions

of this kind, however, are comparatively rare. Such an arrangement is of course very satisfactory to the exporter, but obviously undesirable for the importer, since the buyer assumes the entire burden of financing, loses the use of working capital, and is entirely dependent on the solvency and honesty of the exporter. Nevertheless, if the buyer is unknown, or if he is of doubtful standing in the eyes of the exporter, such a course may be the only way open unless a letter of credit can be established. Often on orders of merchandise requiring special construction, an exporter may feel justified in demanding cash or equivalent security as a deposit before production is undertaken.

Open Account

SOME IMPORT transactions are carried on through open account, but they are unusual. This method is used chiefly by large import and export houses of well established financial reputation and which have had good relations of long standing. Payment is made on agreed terms, without the withholding of collateral and without drafts to cover shipments, the commercial invoice serving as indication of liability. Open account payment is also usually provided under consignment shipments, in which case reimbursement is made upon disposal of the merchandise. The exporter who sells on open account assumes the entire burden of financing, and must therefore be in a strong position in order safely to undertake the risk. In case both import and export trade are conducted and one transaction tends to offset the other, remittances are made of course only for balances.

Banks in Importing

IN ESTABLISHING his practices and policies relative to financing, the inexperienced importer will necessarily be guided by the advice of his banker. Many banks, particularly at important commercial centers, have well-organized foreign departments which perform every activity necessary in financing import and export trade. Overseas connections are maintained either by foreign branches or through correspondent banks abroad. The experience of these departments in the promotion of foreign commerce places them in strategic positions to render to their customers invaluable advice and guidance, not alone on financial matters, but on various other techniques involved in trading abroad. Many interior banks also maintain foreign departments or services, and are likewise in a position to serve directly the interests of importers and exporters located inland.

Import transactions are handled and financed frequently by American factors, who carry accounts until goods are liquidated by sale and paid for by the importer's customers. They advance loans to finance the trading activities of their clients, clear the credit status of consignees, and perform various other types of services for the importer.

6. *CUSTOMS PROCEDURE*

ALL SHIPMENTS of merchandise from foreign countries consigned to persons or business houses in the United States, either by sea, by air, or across the borders from Canada or Mexico, whether free or dutiable, come under the control of the United States Customs, and will be released for local delivery or for forwarding only after certain procedures have been complied with.

The powers and duties vested in the Secretary of the Treasury pertaining to the importation and entry of merchandise into the United States, are administered by the Bureau of Customs. The Bureau cooperates with other Government agencies also in enforcing the preventive, sanitary, and other laws relating to merchandise brought into the country. The United States and its possessions are divided into 51 customs districts, any one of which may include a number of ports of entry. The administrative officer in charge of a district is known as a Collector of Customs, and is usually located at the headquarters port. At other ports within the district he is represented by deputy collectors.

The process of clearing goods through the customs is complex and exacting. The summary presented in this chapter is not intended to be comprehensive, but to outline in a broad way only some of the more important points in the procedure. Detailed regulations concerning each step and all requirements with which the importer or his agent should be well acquainted are set forth in the *Customs Regulations of the United States,* published by the Treasury Department. The regulations fully revised to date are published also as a part of the *Custom House Guide* and the monthly suppliment *American Import and Export Bulletin.* Changes are also published in the *Federal Register,* and *Treasury Decisions* to keep the trade up to date with recent rulings.

Entry

THE PROCEDURE necessary for clearing merchandise through the customs is referred to as entry. The word "entry" is used in two senses. Usually it indicates the bill of entry, or the paper or declaration which the importer files with the entry clerk. At other times it is referred to not as a document, but as the series of acts necessary to entering the goods, terminating with liquidation. In making entry the importer, or his agent, usually the custom house broker, must file the bill of lading, the special customs invoice, other required documents or certificates, and make a declaration that the prices and all other data in the invoice are correct. The details required are contained in what is known as the entry blank, and comprise all facts in regard to the importation which are necessary for the purpose of assessing duties and securing proper

examination, inspection, appraisement, and liquidation. Entry shall be made within five days, exclusive of Sunday and holidays, after the arrival of the shipment, unless a formal extension is authorized by the Collector. At the time of entry a bond must be filed also for the purpose of protecting the United States Customs, not only while the merchandise is in its custody, but giving the authorities right to return to the one executing the document for any difficulties which may develop after final release of the cargo.

Imported merchandise for which no entry is made within 5 days after arrival of the carrying vessel within the limits of a port with intent to unload, or within an authorized extension thereof, is taken possession of by the Collector of Customs and stored in a warehouse designated as a General Order bonded warehouse, withdrawal from which involves expense and delay. Entry may be made by the importer at any time within one year, but at the expiration of that period any such merchandise will be considered as being unclaimed and will be seized by the Collector of Customs and made subject to sale at public auction. In the case of merchandise arriving otherwise than by vessel, the date on which the carrying vehicle arrives within the limits of the United States is considered the date of importation.

Kinds of Entry

THERE ARE numerous kinds of entry, each serving a particular purpose, generally according to the disposition which the importer wishes to make of the goods upon their arrival at the port. He may wish to pay the duty, if any, and remove the entire shipment at once to his place of business, to his customer, or to storehouse for consumption or sale. Under such an entry all customs formalities may be promptly concluded. When making a "consumption entry" on dutiable goods, the importer or his broker deposits at the custom house a sum equal to the estimated duty. Upon appraisal and final liquidation, refund is made for any overpayment, or, if the deposit is insufficient, demand for additional payment is made.

On dutiable merchandise, for various reasons, the consignee may not wish to pay the duty immediately, or to take physical possession of the goods at the time of their arrival. In this case he is permitted to store them in a bonded warehouse (see page 40), where they may remain until one of various forms of disposition is made of them, up to a maximum period of three years. In such instance, the importer or his custom house broker must give a warehouse entry bond. Only dutiable goods may thus be stored. Articles of a perishable nature and explosive substances are prohibited.

Subsequent withdrawals from warehouse are of several kinds, depending on the character of disposition, a few examples of which may be mentioned as illustrations. If the importer withdraws from warehouse for consumption, a "warehouse withdrawal for consumption entry" is filed for the quantity desired, duty being paid then only on

such portion as is withdrawn. Sometimes the importer may withdraw merchandise for the purpose of exporting it from the United States, without the payment of duty, as is his privilege. This procedure often requires transportation from the point of entry to another port of the United States. In such a case, the entry is known as "withdrawal for transportation and exportation." Or, there may be a "withdrawal for transportation entry" when the importer desires to have the merchandise transferred in bond to some other port of entry without payment of duty. When such goods are placed again in a bonded warehouse at another point, a "rewarehouse entry" is made. Or, if the merchandise so transported is to be withdrawn for consumption at the point of arrival, a "combined rewarehouse and withdrawal for consumption entry" is used.

The "immediate transportation entry" is used when the importer wishes to have the goods appraised, and the duty assessed, at some interior customs point. In such a circumstance, the cases are sealed at the port of arrival and transported to their destination on a bonded carrier. A "drawback entry" is employed in connection with claims made by the importer for duties which already have been paid on imported merchandise but which later is exported as forming a part of goods manufactured in the United States. The drawback provision is designed to give to domestic manufacturers, who use in the production of articles for export foreign materials or parts on which duties have been paid or revenue taxes collected, the opportunity to obtain drawback in the amount of 99 per cent of the duties paid or the internal revenues taxes collected on such materials or parts. Without such drawback provision, domestic manufacturers would be at a disadvantage when in competition with foreign manufacturers in export markets. Many major industries take advantage of this provision. (See page 47.)

Provision is made also in the Tariff Act for domestic manufacturers to utilize, in the manufacture of articles for export, foreign materials and domestic products subject to internal excise taxes, without the payment of either the duty or excise taxes. This is on condition that the owner or lessee of manufacturing premises secures, upon application to the Commissioner of Customs, his approval to utilize the designated premises as a bonded manufacturing warehouse under conditions as set down in Sections 19.13 to 19.16 of the customs regulations. Imported goods so utilized come under the "bonded manufacturing warehouse entry."

These examples will serve to illustrate the many variations in forms by which imported merchandise may pass through the customs at arrival at any of the points of entry. They are not complete and exemplify procedures only in broadest scope. The details are set forth fully in the customs regulations. Because of the many technicalities involved, relatively few importers find it advisable to perform all work of entry themselves, but employ custom house brokers to look after matters for them.

The Custom House Broker

CLEARING GOODS through the customs requires experience, thorough training, and accuracy. This has been responsible for the development of specialists in the field, known as custom house brokers, who are familiar with the regulations and procedures and are prepared to take over the responsibility of handling all clearance matters for the importer on a fee basis. To perform such services for another person, they must have Treasury Department licenses, which are subject to revocation for malpractice. Frequently, the custom house broker conducts freight forwarding services with his customs work, including the handling of bonded or duty-paid shipments for the importer. Lists of persons and firms engaged in the business in each major port of the United States may be seen by reference to the *Custom House Guide.*

In the entry of a shipment the broker is prepared to take care of a sequence of detail which the importer would find it difficult to perform for himself unless he maintains his own office or a competent and experienced employee at the port of entry. The custom house broker's service may include such matters as checking over the importer's documents, watching for the vessel's arrival, checking with the appraiser regarding valuation, preparing and filing entry at the custom house, paying the estimated duty, and preparing and notarizing all necessary affidavits after customs examination, making delivery of the goods according to the importer's wishes, and watching for the final liquidation of the entry. While the custom house broker must see that all government regulations are carried out, he acts on behalf of his client and keeps him fully posted on pertinent laws and regulations regarding importation. The importer should not overlook the advice and guidance which his broker is able to give him on all customs matters as they affect his merchandise, even prior to importation, particularly with respect to shipping, invoicing, documentation, and packing and marking requirements.

Bonded Warehouses

SINCE in many instances the importer may have reason for not taking immediate possession of foreign merchandise at the time of its arrival in the United States, and as some or all of it may be reexported without the payment of duty, provision is made in the tariff act and in the customs regulations for the storage of the goods in bonded warehouses, sometimes known also as customs warehouses. Such warehouses are always under strict supervision and control of the United States Government, through a customs official or other safeguard to the revenue. The proprietor must be bonded to the Government as a guarantee that he will observe all regulations.

If goods placed in a bonded warehouse are exported within the prescribed warehouse period, no duty is deposited at the time of entry, but if after so placed and later released for domestic consumption, the duty on the portion released must be deposited at the time of release.

In the case of raw materials and other goods, the use and sale of which are seasonal, or which are sold only at intervals, storing is of particular advantage to the importer, in that it permits the postponement of duty payments. The financing of goods while in storage sometimes is done on the basis of the warehouse receipt.

There are several types of bonded warehouses, the classification depending on the uses to which they are put. Full details are given in the customs regulations. The types, briefly, are as follows:

1 The importer's private bonded warehouse, used exclusively for the storing of merchandise belonging or consigned to him.

2 General or public bonded warehouses, for the storage of general imported merchandise.

3 Bonded yards or sheds, for heavy or bulky imported merchandise; stables, feeding pens, and other similar enclosures for imported animals; and tanks for liquid merchandise in bulk.

4 Bonded bins or parts of buildings, or of elevators, for the storage of grain. (Storage period limited to ten months instead of three years.)

5 Warehouses for the manufacture in bond, and solely for exportation, of articles made in whole or in part of imported materials.

6 Warehouses bonded for smelting and refining imported ores and crude metals, for exportation or for domestic consumption.

7 Bonded warehouses established for the purpose of cleaning, sorting, repacking, or otherwise changing in condition, but not manufacturing, of imported merchandise, under customs supervision.

The various types of warehouses, bonded and otherwise, are listed in the *Customs House Guide.*

Classification of Merchandise

IMPORTED merchandise is classified for customs purposes according to descriptions thereof contained in the various paragraphs of the dutiable and free lists of the tariff law. This is of particular importance to the importer, since the classification within which his merchandise falls determines the rate of duty applicable thereto, if any. Some of the descriptions in the tariff law classifying imported commodities are simple and readily understood, but others involve technical language in some detail. The Customs Simplification Act of 1954 provides for the revision and consolidation of tariff schedules which will simplify the determination of tariff classifications. This task was completed in November, 1960. At this writing enacting legislation is pending before Congress.

Upon liquidation of an importation, the importer has the right to protest in the United States Customs Court if he feels that a different classification should have been made. The amount of duty, as distinguished from the rate of duty, which is payable on goods at *ad*

valorem rates is contingent, of course, on valuations established or confirmed by the customs authorities.

Import Duties

APPROXIMATELY 40 percent of the value of imports for consumption in the United States enter this country free of duty. On the remainder, or dutiable goods, the duty is assessed either on an *ad valorem,* a specific, or a compound basis, according to the detailed provisions of the Tariff Act of 1930 regarding each individual product, or subsequent changes made through trade agreements and other ways. In addition to customs duties, certain imported articles, on both the free and dutiable lists, are subject to import-excise taxes under the Internal Revenue Code. These are treated under the law for virtually all purposes as customs duties.

Special types of duties are countervailing and antidumping duties, designed to counteract foreign export subsidies or dumping on the American market. Although not frequently invoked the countervailing duties are levied under Section 303 of the Tariff Act of 1930, as amended, the antidumping duties under the Antidumping Act of 1921, as amended.

The *ad valorem* duty signifies a duty payable on the value of the imported merchandise, and is expressed as a stated percentage of the value. The specific duty is based on a fixed amount in dollars or cents per unit of weight, volume, number of pieces, or other measurement, such as so much per pound, yard, gallon, bushel, or dozen. In this case, there is no need for accurate appraisement. All that is necessary is to make a verification of the count.

On some classes of merchandise compound duties, or combinations of specific and *ad valorem* duties, are assessed. In general, such duties apply to imports of manufactured products which are composed of raw materials on which import duties are imposed. The duty may be, for instance, 37½ cents per pound plus 20 percent *ad valorem.*

The Tariff Act of 1930, as amended, sets forth, in detail, the commodities which are exempt from duty and those which are dutiable. In the dutiable list is given for each article, or kind or grade thereof, the rate of duty applicable. The Tariff Act of 1930, as amended, is the latest general tariff revision made by Congress, but since 1930 numerous changes have been made, not only in duty rates but in import-excise taxes, either through direct Congressional amendment or by Presidential proclamation. Changes by the latter method were made either under the so-called flexible tariff provision of the Act of 1930, or in pursuance of reciprocal trade agreements entered into under the Trade Agreements Act of 1934, as extended and amended. In addition, certain Tariff Act rates, as well as certain tax rates, have been bound against increase, and articles have been bound on the free list, pursuant to the trade agreements. *United States Import Duties, 1958,* issued by the United States Tariff Commission, lists the applicable

duty rates in effect as of July 1, 1958, and is brought up to date with the aid of occasional supplements. This publication, in addition to showing the changes that have taken place from the 1930 tariff rates, also gives the Special and Administrative Provisions of the Tariff Act of 1930, as amended. An alphabetical list of all imported commodities, showing for each the original duty and all reduced rates or bound rates is carried in each annual issue of the *Custom House Guide.*

Trade Agreements

THE TRADE agreements program of the United States has as its purpose the reciprocal reduction of excessive import duties or other barriers to freer trade between the United States and other nations. The program is carried out through the Department of State by means of direct negotiation with nations having similar interests. Trade agreements are executive agreements, and not treaties of commerce, and as such do not require Senate ratification, although Congressional action is necessary for the periodic renewal of the President's authority. Under the Act of 1934 and its successive renewals, the President has authority, upon the advice of appropriate government agencies and after conducting full hearings for the consideration of the interests of American producers, to obtain from foreign countries concessions for lowering their excessive tariff rates on our exports to them, or the liberalization or removal of other barriers to trade. In return for such concessions, the United States agrees to reductions in some of its own rates within prescribed limits, the binding of certain existing rates against increase, and guaranteeing continued duty-free entry of specific products on the free list.

An important point in such agreements is the provision that reductions in duties made by the United States in any agreement with an individual country shall be generalized to similar products imported by us from all other countries. This is in accordance with the traditional policy of the United States to make no discrimination between countries, but to extend equality of treatment to all who in no way discriminate against our own trade.

In accordance with a resolution adopted at the first session of the Preparatory Committee of the United Nations Conference on Trade and Employment, established by the Economic and Social Council of the United Nations, the United States during 1947 participated with twenty-two other nations in discussions directed toward substantial reductions in tariffs and other trade barriers and the elimination of preferences. The final agreement, concluded at Geneva on October 30, 1947, is known as the *General Agreement on Tariffs and Trade.* The GATT is now adhered to by 39 countries which together conduct over 80 percent of world trade. U. S. participation in the GATT stems from the authority of the President to enter into trade agreements under the Trade Agreements Act, extended by Congress in 1958 for a four-year period until June 30, 1962.

Through participation in the negotiations the United States, according to the limits and procedures of the Trade Agreements Act, as extended from time to time, has granted reductions and bindings of duties on many articles of import and has obtained in return concessions in foreign import duties on a wide range of commodities of importance in our export trade. In addition, the negotiating countries have agreed to certain basic rules with regard to nondiscrimination, the removal as far as possible of many barriers to trade other than tariffs, and the reduction or elimination of preferences.

The General Agreement went into effect provisionally on January 1, 1948, and by the end of that year all of the original negotiating countries had acceded to the provisional protocol and further major conferences were held, at Annecy, France, in 1949, Torquay, England, in 1950 and 1951, and Geneva, Switzerland, in 1955 and 1956. Negotiations during 1957 were in the nature of adjustments in the existing concessions. Consultations in Geneva, Switzerland, during the 13th Session of GATT in October, 1958 centered around the application of import restrictions maintained for balance of payments reasons by certain contracting parties. The 1960-61 negotiations were in two major phases. The first which lasted several months, dealt largely with renegotiations with the European Economic Community. The second phase concerned a general round of tariff negotiations.

A number of publications dealing with the *General Agreement on Tariffs and Trade* can be found in the list of selected references at the end of this booklet.

Internal Revenue Taxes

IN ADDITION to duties provided by the Tariff Act of 1930, and subsequent changes, many imported commodities are subject also to taxes imposed under certain sections of the Internal Revenue Code of the United States.

Section 4501 through 4581 of the Internal Revenue Code impose an "import tax" which is levied only on the imported articles to which it is applied. Some of these articles are: sugar, sugar manufactures, certain types of vegetable oils, crude petroleum and petroleum products, coal, copper, lumber, certain animal oils, certain seeds and seed oils, and oleomargerine. Other sections of the Internal Revenue Code impose other taxes, such as manufacturers' excise tax, tax on distilled spirits, wines, and beer, tobacco and tobacco manufactures—imposed on both imported and domestic articles sold by the importer or the manufacturer, as the case may be. Sporting goods of all kinds, musical instruments, tobacco and manufactures, and narcotics are also subject to such excise taxes. These taxes, in their effect identical to custom duties, are imposed and collected in different ways. Many sections of the Internal Revenue Code, as they relate to the taxation of imported commodities, are reproduced conveniently as a part of the *Custom House Guide*. Current internal revenue rates, in combination with regu-

lar import duties as revised to date, are shown by individual imported commodities in alphabetical arrangement in the same source.

Valuation for Customs Purposes

THE CONFIRMATION or establishment of the value of merchandise cleared through customs is of extreme interest to the importer, since value, in the case of goods dutiable at *ad valorem* rates, determines the amount of duty he will be called upon to pay. The establishment of value is made by customs appraisers or examiners who inspect the shipment, confirm the accuracy of the invoice, the quantities of merchandise, and so described the goods that the collector may know the dutiable classification, and thus the duty to be assessed. In this process the importer and the appraiser are governed by definite provisions of the tariff law.

Because of the great volume of imports entering the United States every day, it is not possible for customs authorities to examine every single case of goods in a shipment. The law provides, therefore, that not less than one package out of every ten of the same character shall be designated by the collector to be examined, unless a special regulation permits a smaller number. Such packages are transferred to the appraiser's warehouse for the purpose by bonded truckmen, although heavy raw materials or machinery, or other bulky shipments, may be examined and appraised at the dock. The importer is allowed delivery of the remaining part of the shipment after payment of the estimated duty on the whole and the posting of a bond which gaurantees the customs that released goods will be returned for examination if called for, and that any additional duty above the estimated duty as paid will be remitted by the importer at final liquidation of the entry.

The value of goods imported into the United States which are subject to *ad valorem* duties may be determined on several bases. New valuation procedures provided by the Customs Simplification Act of 1956 came into effect on February 27, 1958. Items specifically mentioned and exactly defined in a list published in TD 54521, called the Final List, however, will continue to be valued and appraised under the old methods as provided in Section 402a of the Tariff Act of 1930, as amended. Such items are subject to the foreign value, or export value, whichever is higher.

The foreign value, briefly, represents the market value or the price at which such or similar goods are freely offered for sale, at wholesale for home consumption, to all purchasers in the principal markets of the country from which they are exported.

The export value is the price of the merchandise at the time of exportation to the United States at which such or similar merchandise is freely sold in the principal markets of the country from which exported, in the usual wholesale quantities and in the ordinary course of trade, for exportation to the United States.

In the case of both foreign value and export value, the cost of all

containers and coverings, and all other costs, charges and expenses incident to placing the merchandise in condition ready for shipment to the United States, are included. If the appraiser determines that neither the foreign nor the export value can be ascertained satisfactorily, then the United States value is used. If none of these three values can be determined, then the cost of production is used. In certain specified cases, a fifth valuation is used, namely, the American selling price, or the price at which domestic merchandise of a similar kind is sold in the United States in wholesale lots.

Items not on the Final List are subject to valuation made under the new Section 402 of the Tariff Act of 1930, as amended, whereby foreign value is eliminated for consideration in determining the dutiable value of such articles. The definition of export value is somewhat more liberal and is to be applied in the first instance if it can be determined satisfactorily. If not, the United States value is to be used, or if neither export value nor the United States value can be determined satisfactorily, then the constructed value is applied. The United States value in this case shall be the price, at the time of exportation to the United States of the merchandise undergoing appraisement, at which such or similar imported merchandise is freely sold or, in the absence of sales, offered for sale in the principal market of the United States for domestic consumption, packed ready for delivery, in usual wholesale quantities and in the ordinary course of trade. Deductions are allowed for profit and general expenses. As the third resort, constructed value is based on the cost of materials and of fabrication or other processing of any kind employed in producing such or similar merchandise, at a time preceding the date of exportation of the merchandise, together with an amount for general expenses and profit equal to that usually reflected in sales of merchandise of the same general class or kind and the cost of containers, coverings, and all other expenses incidental to preparing the merchandise for shipment to the United States.

These procedures are described in detail in the *Custom House Guide.* Complete explanation of recent changes applying to articles not on the Final List is contained in *United States Customs Valuation Procedures,* listed in the selected references section of this booklet.

Controversies between collectors and importers over valuation, classifications, and other customs matters occur very frequently. In case of dispute over value, an appeal may be filed for reappraisement with the United States Customs Court, by the importer within thirty days and by the collector within sixty days. One judge is assigned to conduct the reappraisement, both parties being heard. Either the collector or the importer may make an appeal within thirty days from the time the decision is filed with the collector. The application is assigned to a division of three judgmes, whose decision is final unless further appeal is made by either party to the Court of Customs and Patent Appeals, upon questions of law solely.

Decisions on such matters are published in the weekly issues of

Treasury Decisions, published by the Treasury Department, which carries instructions, regulations, and other customs matters of interest to importers. Controversies take place also between the importer and the collector regarding the rate and amount of duties chargeable, drawback claims, exclusion of merchandise, and liquidation or reliquidation. In objecting to such decisions, the importer files protest with the collector, giving his reasons, and if agreement cannot be reached the case is submitted to the United States Customs Court, with the right of further appeal. In general, the Customs Court has jurisdiction over appeals on appraisals, and all decisions of collectors of customs, including orders on rate of duty, exclusion of merchandise, and liquidation of entries.

Drawback of Duty

THE REPAYMENT, up to 99%, of customs duties paid on merchandise which later is exported, as a part of a finished product, is known as a drawback. It refers also to a refund, upon exportation of imported merchandise, of a domestic tax which has been paid. The general purpose of the drawback is to bring about an equalization in the competitive position of a domestic producer in export markets abroad with that of his foreign competitors. Since the cost of the imported materials used have been increased by the amount of the import duty, and the foreign manufacturer using the same materials has an advantage in cost over the producer in this country, the drawback seeks to provide a remedy by refunding to the domestic firm or manufacturer, who uses dutiable foreign raw materials to finish his product for export, an amount equivalent to the duty paid, less one per cent. In other words, the drawback is a partial compensation for greater domestic costs in the production for export of articles which contain dutiable foreign raw materials.

The process of obtaining relief from payment of duty on the re-exportation of merchandise stored in a bonded warehouse under custody and control of the Government is relatively easy of accomplishment. But on imports which have not remained in such custody or control, the procedure is more complicated. Legislation enacted August 18, 1958, however, liberalizes the customs drawback law by making the substitution provision applicable to all commodities instead of a specified few as heretofore. The substitution provision is designed to relieve processors and fabricators of products of the difficulty and expense of specifically identifying the imported materials that had been used in the production of exported products in order to establish eligibility for drawback. The granting of drawback may now be made on those materials "of the same kind and quality" as those used by the United States manufacturers in producing for export. Details are contained in Part 22 of *Customs Regulations of the United States.*

Foreign-Trade Zones

For the purpose primarily of facilitating the handling of merchandise intended for reexport or transshipment without compliance with customs laws and regulations pertaining to entry, especially of those goods which require processing or intermixing with American products, Congress in 1934 authorized the establishment in the United States of foreign-trade zones.

In the United States, a foreign trade zone is defined as an isolated, enclosed, and policed area, in or adjacent to a port of entry, without resident population, operated as a public utility and furnished with all facilities for lading and unlading, for storing goods, and for reshipping them by land or water. Goods entering such a zone may be landed, stored, graded, sorted, or otherwise manipulated with a minimum of customs control and without customs bond.

Recent changes in the Foreign Trade Zone Laws permit manufacturing in addition to storing, grading, sorting, or otherwise manipulating goods with a minimum of customs control and without customs bond. Although merchandise may be exhibited and displayed, and sold in wholesale lots, by auction and otherwise, no retail trade may be conducted.

When goods are brought into the United States customs territory from a foreign trade zone, however, they become subject to all existing customs laws and regulations. But if the imported merchandise is shipped from the zone out of the country, virtually the only expense is that for warehousing and insurance. There is no limitation on the length of time goods may remain in the zone.

Prior to the post-war period, the only such zone operating successfully in the United States was that at the port of New York. A second zone opened at New Orleans in 1947, and since then, Foreign Trade Zones have been established in San Francisco, Los Angeles, Seattle, and San Antonio. At their own request, however, the grants establishing foreign trade zones at San Antonio and Los Angeles, have been revoked. More recently, foreign trade zones have been established at Toledo, Ohio and Mayagnez, Puerto Rico.

The authorization for establishment of foreign-trade zones was made under the Foreign-Trade Zones Act of June 18, 1934. The Act set up a Federal board, now consisting of the Secretary of Commerce, the Secretary of the Treasury, and the Secretary of the Army, authorized to grant public or private corporations the privilege of establishing, operating, and maintaining such zones in or adjacent to ports of the United States.

Among the important arguments advanced in favor of foreign-trade zones are that they assist in creating consignment markets for large supplies of raw materials available to manufacturers at lower prices; make it possible to sort, grade, assemble, mix, and otherwise manipulate certain products intended for entry into the United States, or for reexport, without the complexities of ordinary customs procedure; in-

crease the transshipment or reexport trade of the country; simplify the operations of the customs by eliminating products intended for re-export; and stimulate improvements in port and terminal facilities.

Another recent change permits the establishment of Foreign Trade Zones or subzones adjacent to or near already operating zones for special purposes such as exhibitions or fairs. This ruling can also be applied for the establishment of certain manufacturing establishments if the regularly established Foreign Trade Zone proves to be unsuitable for such operation.

Imports Subject to Special Supervision

REGARDLESS of the duty status, some classes of goods are not permitted to enter the United States without close supervision or inspection, or unless they meet certain specific requirements aimed at the protection of public health and welfare. Other kinds of goods are strictly excluded. For the purpose of guarding against the importation of injurious insect pests and plant diseases, for instance, the Bureau of Entomology and Plant Quarantine of the United States Department of Agriculture enforces restrictive orders and quarantines to prohibit or regulate the entry of goods which may introduce such pests and diseases. The Bureau maintains inspectional personnel at the ports of entry for the purpose. Fumigation or other treatment of plants, seeds, and plant products is employed where necessary to make the goods fit for admission. The entry of such goods requires a special permit from the Department of Agriculture. Importation of animals, animal products, meat, and animal food products are likewise so regulated.

The Food and Drug Administration of the Department of Health, Education and Welfare administers the Federal Food, Drug, and Cosmetic Act, which, as it applies to imported goods, requires that any person abroad who ships to the United States any food, drug, device, or cosmetic, must declare that such article has not been produced, manufactured, processed, or packed under unsanitary conditions, that it is not adulterated or misbranded, that its sale is not restricted in the country of production or export, and that it conforms in every way with section 505 of the Act. The object is to prevent entry into this country of adulterated, deleterious, or poisonous articles. Imports of such goods require special declarations on forms provided for the purpose. The Agency administers also the Tea Import Act, preventing the importation of tea inferior in purity, quality, and fitness for human consumption; the Import Milk Act, regulating the import of fluid milk and cream; and the Caustic Poison Act, to safeguard the sale of certain dangerous caustic or corrosive acids, alkalies, and other substances.

The importation of other classes of goods is likewise closely super-

vised or regulated to meet definite standards set up by law, which cannot be considered separately here. Lists of all kinds of merchandise requiring special supervision, with detail as to the administrative agencies, inspection, and other conditions of entry, are set forth in Part 12 of the *Customs Regulations* which may be seen readily by reference to the *Custom House Guide.*

Part II · EXPORTING

1. *EXPORT TRADE OF THE UNITED STATES*

THERE ARE FEW COMMODITIES having a widespread demand or general acceptance in the United States which, in normal times, are not in demand also in one or more foreign countries, or for which a demand cannot be created through proper sales promotion. Many hundreds of American products before the war were sold throughout the world in competition with native products of foreign countries and similar products of other countries, on the basis of quality, performance, design, price or novelty. Permanent and profitable markets were built and maintained in all important countries by large numbers of American companies through persistent and well-directed sales effort.

The tremendous expansion in export volume as the result of the war, fed by foreign aid programs and pent-up demand, was limited in most lines only by the productive capacity of the country, and few producing enterprises, large or small, did not in some way share in the huge flow of goods, directly or indirectly. This experience, with continued high demand of the postwar period, has stimulated unusual interest in the future potentialities of foreign markets on the part of producers with long records in exporting, and has challenged likewise the serious consideration of many others who previously had given little or no thought to possibilities in the foreign field.

All indications point to a volume of trade both in the short and long-range future much in excess of that of the past. The future will continue to offer attractive and permanent opportunities for both new and seasonal traders whose business is soundly organized. Competition, however, already is greater as the industrial nations have recovered and exceeded their traditional levels of production and as the less developed areas of the world are achieving a higher economic status than they have ever known before. It is axiomatic that this brings with it greater demands for goods and expanding markets generally.

The emergence of the European Common Market and the European Free Trade Association presents new challenges to United States producers and exporters, which may eventually change the character of our trade not only within Europe but with other trading areas.

The U. S. share in exports of the world as a whole has tended to

shrink since the early postwar years. Some decline was natural since the rest of the world, and particularly Western Europe, was abnormally dependent on U. S. supplies and financial aid in the period immediately after the war. If, however, we can regain the share of total world trade that we enjoyed a few years ago, this can mean a big increase in the value of our exports.

As noted in the section on importing, the importance of a high level of U. S. exports is helping to alleviate the recent balance-of-payments deficit has been fully realized.

Opportunities in Export

THE FUNDAMENTALS of selling abroad on a profitable basis are little different from selling domestically. They consist basically of competitive merchandise at reasonable prices, and delivery and other services comparable to those provided in the domestic field. The manufacturer or other producer who has a product of good value for the price, who is enterprising and aggressive, and who can be depended upon for continuous and reliable supply, can expect to build substantial and permanent trade in those foreign markets which are suitable for his products. It is true, many new elements not characteristic of domestic trade enter the picture when selling across international boundaries and at great distances, but the techniques are well formulated and available to all who will make the effort to learn them.

The question as to who can have export markets does not depend necessarily on whether the producer is large or small, or whether he is located inland or at seaboard.

The large concern, with better financial and other facilities for specialized organization, for travel, and for advertising on a large scale, clearly possesses certain advantages. If the smaller company is not able to produce as economically as the larger concern in the same line, he will of course encounter initial difficulties, but he still may find it possible to build a profitable business through quality of product, attractiveness of finish or design, or superiority of service. Or, he may find it possible to obtain a fair share of export sales by taking advantage of the services of combination export managers, manufacturers' export agents, or dealing through export merchants, export commission houses, or other domestic intermediaries, thus obviating the necessity of continuous sales direction or the maintenance of his own export department.

It is true also that some of the most successful companies conducting export trade in many lines are located inland, some of them well west of the Mississippi and at a great distance from the sea. If the inland producer finds himself at a disadvantage due to the burden of inland transportation so that he cannot meet competitive prices in foreign markets, generally he may possibly overcome that handicap by shipping in carload or truck load lots, and perhaps shipping through a seaboard port to which the inland freight is lowest. He may not find

in his immediate locality the proper banking, insurance, and freight forwarding facilities, but if he is enterprising he may make adequate arrangements along these lines with banks, brokers, and forwarders in neighboring large cities or at seaboard, either on his own initiative or through his established local connections.

The answer to the question as to who can export depends more on the merits of the product, industrial efficiency, merchandising ability, resourcefulness, and soundness in the policies and practices of the company than it does on the size or location of the plant. The technical details of carrying on foreign business need not cause undue anxiety. They can be met satisfactorily by the average concern making a conscientious effort to master them.

The manufacturer or other producer who intends to develop profitable markets overseas necessarily will devote to it the same painstaking effort he gives to domestic operations. He will look upon it as a continuous and sustained part of his sales, deserving the same consideration and service as domestic business. The exporter who is careless of the interests of customers he may have abroad, cannot look for much permanent success. By reason of instability or neglect, he may damage even the good reputation of other exporters whose conscientious efforts have established deep respect for American methods and products.

Variety in Exported Goods

Obviously some classes of goods are in greater demand than others, either because there are natural or developed markets for them, or because their character adapts them well to the rigors of long-distance shipping. For many classes the demand is urgent and continuous, but for others there is the necessity of painstaking promotion and merchandising effort. The bulk of American exports in normal times consists of manufactured articles. Our highly industrialized economy makes us preeminent in this type of supply. Outstanding in this field as a class are many kinds of machinery and equipment, which include motor vehicles, aircraft, metal-working machinery, electrical machinery, well and refinery machinery, office machinery and appliances, engines, locomotives, and all parts and accessories thereto.

But the list of exported manufactured goods runs the gamut of our whole industrial structure, and embraces numerous kinds of processed foodstuffs, both animal and vegetable; wearing apparel and other textile manufactures of cotton, wool, rayon, and other fibers; numerous varieties of manufactures of wood, paper, rubber, metals, leather, earths, glass, and tobacco; oils, chemicals, drugs, and pharmaceuticals; and a host of miscellaneous items too numerous to classify here.

Another important classification of exports consists of many types of goods in a semimanufactured state to be used for further fabrication by industries of other countries. These consist principally of steel-mill products, such as ingots, plates, sheets, and tinplate; numerous

kinds of semimanufactures of aluminum, copper, brass and bronze; ferroalloys, industrial chemicals, coal-tar products, leather, timber, boards, planks, wood pulp, and petroleum products.

There are extensive markets abroad likewise for many raw or crude materials produced in the United States, notable among which are raw cotton, tobacco, coal, and sulphur. Of the raw foodstuffs for which demands are heavy are wheat, corn, oats, barley, and many kinds of fresh fruits, including oranges, grapefruit, apples, prunes, pears, lemons, and grapes. Of the manufactured foodstuffs, various meat and dairy products, lard, sugar and sugar products, flour, and canned, dried, and evaporated fruits and vegetables predominate.

No adequate summary of the thousands of articles entering into our export trade can be given in a few paragraphs. One has only to glance at the index to our export statistics to appreciate the wealth and variety of American goods which find their way continuously to all parts of the world.

In 1960 exports constituted 4 percent of the gross national product. Exports comprise a much higher proportion of our production of movable goods. It should be noted, of course, that much of the gross national product consists of services, construction, and retail distribution which are not of a nature to be exportable.

The percentage of our agricultural output exported is even higher than the comparable percentage of our non-farm production, and hence, substantially higher than the average for the economy as a whole. For agricultural producers the vital importance of export markets is beyond dispute.

Even among those manufacturing industries with below-average export ratios, a great majority depend on foreign markets for an important share of their sales, profits and jobs.

Primary manufacturing industries, such as iron and steel or nonferrous metals, have a total interest in export markets which is larger than their direct interest because a significant part of their production is processed by other industries and exported in some other form.

Major Areas for Exports

Prior to the war, Europe was the most important destination of our exports from the point of value, averaging about 40 per cent of our total exports from 1936 to 1939. The Western Hemisphere was next in importance, with Canada by far the most important customer, and with the whole of North and South America taking about 35 per cent of our total exports. Asia, with Japan in the forefront, was the third most important area for our export trade, with the countries of Oceania and Africa running a poor fourth.

Since exports to all the primary producing countries are widely influenced by their foreign exchange earnings one must look to the total demand for primary products in industrial areas to measure future trends.

Volume of Export Trade

SINCE THE BEGINNING of this century to 1940, exclusive of the period of World War I, American exports of merchandise averaged $2.8 billion per year. During the 1920's they averaged as high as $4.6 billion, but fell again in the 1930's to an average of only $2.6 billion. In response to the greatly enlarged needs of our allies for the prosecution of the war, however, total exports rose rapidly to unprecedented levels, increasing from an average of nearly $3 billion in the period from 1936 to 1938 to as high as $14 billion in 1944, not including supplies sent abroad for the use of our own armed forces. In this period exports were affected by very unusual conditions. They were made up predominantly of goods adapted to war needs, transferred to our allies in tremendous quantities after 1941 under the Lend-Lease program, which called for no immediate reimbursement beyond what reverse Lend-Lease materials and services they could furnish us in the prosecution of the war, and consequently no immediate transfer of funds.

With the cessation of hostilities in 1945 and the termination of the Lend-Lease program, exports temporarily declined materially, the total for the calendar year 1946 falling to $9.7 billion. A large part of this total, however, represented continued heavy demands for American goods for reconstruction in war-devastated areas and direct relief contributions through the United Nations Relief and Rehabilitation Administration. In 1947 there was a large increase, bringing the total for that year to nearly $14.5 billion, a substantial part of which was the result of heavier purchases by European nations for reconstruction, supported by dollar loans and other aid to them. From 1948 to 1951 exports ranged from $12.7 billion to $10.3 billion in 1950, aided by the European Recovery Program and other forms of foreign aid. A new spurt in U. S. exports took place in 1951 when a $15 billion level was reached, due to high world raw-material prices and large U. S. purchases for defense production and stockpiling purposes, largely in consequence of the outbreak of the Korean war. Again in 1953, the earliest postwar year reasonably comparable with prewar periods with respect to United States export trade, a high was reached of $15.6 billion with only slightly lower figures in 1954 and 1955. In 1956, however, a new high of $18.9 billion was subsequently exceeded in 1957 by $19.5 United States exports. A decline in 1958 reflected the ebbing of abnormal factors which had caused shipments of raw materials to Western Europe and the Far East to rise to unsustainably high levels early in 1957. The year 1959 began to reflect recovering industrial areas of West Europe and Japan. Then in 1960 there was a 20% increase in U. S. exports over the 1959 level. This was attributed in part to increased foreign sales of raw cotton and aircraft, but was also due to the general expansion in exports of industrial materials, capital equipment and other manufactures.

Our purchases of merchandise in foreign countries in the aggregate

normally furnish the largest part of the dollar funds needed by our customers abroad to pay for our sales to them. For many years before the war, the value of total imports of merchandise constituted about 80 percent of the value of exports. The United States continues to export more than it imports. In 1960, for example, the excess of exports over imports amounted to $5 billion.

There is sound reason for expecting the future volume of export trade to continue to be in excess of prewar levels, but there must be some decline from present levels, or a substantial further increase in imports, if we are to place our foreign trade again on a current self-liquidating basis. Trends of export and import volume, reported monthly by the Bureau of the Census of the United States Department of Commerce, are referred to in the selected references section of this booklet.

It should be remembered that any period-to-period comparisons of the value figures given in the foregoing paragraphs are somewhat misleading as indicating increases or decreases in the actual quantity of merchandise exported, because of fluctuations in prices or unit values of the merchandise. This is especially true in comparing war and postwar values with those of the prewar period.

Our exports of merchandise constitute a sales volume on which we depend heavily for high production and employment and for business profits and low production costs. Although this volume as measured by the aggregate appears very substantial, the significance of export sales becomes much more evident when their influence on individual commodities, industries, or sections of the country is considered.

The percentage of our agricultural output exported is even higher than the comparable percentage of our non-farm production, and hence, substantially higher than the average for the economy as a whole. For agricultural producers the vital importance of export markets is beyond dispute.

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Primary manufacturing industries, such as iron and steel or nonferrous metals, have a total interest in export markets which is larger than their direct interest because a significant part of their production is processed by other industries and exported in some other form.

2. *METHODS OF EXPORTING*

FROM THE viewpoint of the manufacturer or other producer in the United States, there are several channels and combinations for exporting. He may export through several types of well-established houses or agencies in this country whose business it is to transact sales abroad as middlemen for the domestic producer. In such a case, his business will differ in few respects from other transactions conducted domestically, and he will be relieved of certain specialized operations involved in overseas business. Or, he may utilize the services of a combination export manager or participate in an export association. On the other hand, he may establish his own company export department or separate export or international company in this country, headed by an experienced qualified export executive, for the purpose of dealing firsthand with outlets or customers in foreign countries, thus assuming all responsibilities and risks and handling all details which ordinarily are performed by the domestic intermediary.

CHANNELS for foreign distribution located in this country are basically of three general types, namely: the buyer and seller for his own account, the buyer for the foreign customer, and the seller on behalf of the American supplier. In actual operation, however, the activities of individual middlemen do not conform strictly to these three types, since many of them perform more than one of the functions, and sometimes all three. Generally, according to the major services performed, they are designated in the trade by such titles as the export merchant, the export commission house, the manufacturer's export agent, the combination export manager, the broker, or the buyer for export. They have extensive and well-developed outlets abroad, and relieve the domestic manufacturer or producer of most of the responsibility for sales promotion and for developing and maintaining his own channels of distribution in foreign countries.

The Export Merchant

The export merchant buys his goods outright from American sources and sells them abroad on his own account. Sometimes he conducts both an export and import business. He may buy and sell not only in the United States for foreign countries in which he specializes, but also in other exporting countries. Frequently, he maintains branch houses, docks, transportation facilities, and selling establishments in the markets which he serves. He handles all details of international trade, including forwarding and shipping, and in some cases operates his own steamship lines. He is interested principally in staple commodities which enjoy an open market.

The export merchant, by virtue of his highly-organized system, may offer to the manufacturer or producer well-established outlets in foreign markets for many classes of goods. The nature of his operations relieves the seller in this country of the many obligations incident to advertising, merchandising, and delivery. He assumes all risks usually connected with export, and in his direct dealings handles all details relating to shipping, documentation, insurance, and the like. He advises the seller regarding desirable modifications of his merchandise to suit the demand of foreign markets, gives packing and marking instructions, and advises as to when, where, and how to deliver.

It should be remembered, however, that the export merchant, like any other merchant, is free to choose what he will buy and at what prices, where he will sell, and generally how the business will be conducted. In some instances, he may not offer to the producer an outlet for a volume of business as great as he may be able to obtain by more direct sales promotion and closer contact with the ultimate market. In others his operations may offer a completely satisfactory outlet. Much will depend on the type of commodity and the producer's export policy. Often, this type of firm today combines with its regular business some of the functions of the export commission house or the manufacturers' export agent.

The Export Commission House

In its strictest sense, the export commission house or export confirming house acts as a buying agent in this country for its foreign customers. When operating solely as a commission house, it is concerned primarily with filling orders for the foreign buyer, and secondarily only with the interest of the seller. Its remuneration is received customarily in the form of commissions paid to it by the foreign purchaser, which vary with the type of the transaction and the character of the merchandise. The American manufacturer or producer who sells through the commission house receives cash in this country for his merchandise, and is relieved of many of the technicalities involved in the export operation. He sells simply as the demand arises, however, usually as the lowest bidder. In its capacity as buying agent, the commission house may assume the credit risk.

In recent years the functions of the commission house have undergone considerable change. Some leading export commission houses have solicited manufacturers in this country for their accounts, and thus have become selling agents of the domestic manufacturer instead of buying agents for the foreign customer. Quite a few combine both functions satisfactorily, but not for the same transaction.

The Manufacturers' Export Agent

Manufacturers' export agents, either firms or individuals, are engaged in export as the selling representatives of manufacturers, operat-

ing on a commission basis. They usually handle the products of several manufacturers making related but non-competitive lines. Their value lies particularly in handling specialties, the demand for which needs to be created. They may employ salesmen who travel abroad and make direct contact with foreign markets, or they may deal through foreign resident agents. Often they combine both methods. Usually they do not finance orders, and the credit risks are borne by their principals. They may or may not handle all details involved in the export shipment. The manufacturer may place his entire line in the hands of one agent, or he may employ the services of two or more agents, whichever may be to his advantage. Sometimes a manufacturer will grant an agent exclusive selling rights in specified territories and export directly in others.

The Broker

The broker performs an important function in the transaction of foreign business. Strictly as a broker, his principal function is to bring together those who have products to sell and those who wish to buy. Generally he does not take ownership of the merchandise involved, but receives a fee from the producer on completion of the transaction simply for the service of making contact with a buyer—or from the buyer for having obtained a satisfactory supplier. He assumes no financial responsibiltiy in connection with the transaction. Usually the broker is a commodity specialist in one or two staple lines, such as cotton, grain, provisions, and the like.

The Buyer for Export

In this classification fall purchasing agents who buy in this country for large users of materials abroad, such as mines, railroads, public utilities, other large industries, or foreign import firms. Some large retail firms are also represented by buyers. Foreign government purchasing missions are in this category. Aside from occasional changes in design, packing, and labeling of goods, business done through such buyers is little different from domestic sales. Such sales, however, do not offer always an opportunity for building stable volume. Almost invariably a manufacturer by selling in this way will encounter difficulties with foreign distributors or agents to whom he may have given exclusive contracts in territories where the goods ultimately are used.

The Combination Export Manager

Manufacturers very frequently find it advantageous to turn over the entire management of their export sales to firms or individuals known as combination export managers. This designation, once used to define the activities of an independent executive serving as export manager for two or more manufacturers, now applies also to large organizations

which act as combined export departments for several manufacturers who do not wish to maintain their own separate departments. Firms of this type specialize in handling the business of a number of manufacturing companies making allied but noncompetitive lines, such as, for instance, differing kinds of products in the electrical equipment field. Their remuneration is received usually in the form of commissions, and sometimes an additional monthly retainer's fee. The manufacturer must of necessity have close cooperative relationships with the combination export manager in the development of policy, and on questions of price, sales promotion, advertising, packing details, and the like.

The combination export manager is prepared usually to conduct market surveys for his clients, to ascertain the best markets for their goods, appoint foreign agents, promote sales, and attend to all details of filling and shipping orders. In some cases he finances shipments, but may leave the credit risk to the manufacturer. If a manufacturer should not wish to engage all services offered, he may contract for those he desires and reserve certain functions for himself such as, for instance, advertising or sales promotion.

It should be noted that in many instances an established, manufacturers' department acts as the export department for other manufacturers in similar capacity to the combination Export Manager.

An advantage in employing this type of organization is that all companies served by it receive the benefit of thoroughly experienced export executives and outlets for goods abroad which any one of the companies individually might find it difficult to obtain. Since reliable combination export companies handle exports in lines which are closely allied and are purchased in much the same class of trade, they are in a position to sell the additional product with less effort and with greater efficiency than the individual manufacturer. Usually the combination export manager operates in the name of the manufacturing company he serves. His overseas representatives present themselves as direct factory representatives, and to all appearances transactions are made between the purchaser and the manufacturer.

Export Trade Associations

Another form of export organization is the export trade association, often referred to as the Webb-Pomerene Association, or a group of associated competitive producers. Instead of handling the products of an individual producer, the association takes care of the export of the products of a group of associated producers. Such associations are formed under terms of the Export Trade Act, or the Webb-Pomerene Act, of 1918, which was passed for the purpose of enabling American producers to meet the competition of foreign combinations. The Act grants conditional exemption from the provisions of United States anti-trust laws on combinations in trade, if such combinations affect export trade only. American export associations are under the jurisdic-

tion of the Federal Trade Commission, and are obligated to file annual reports and to conform to all regulations regarding fair competition. Further detail concerning them may be obtained from the Commission and from trade associations in many industries.

These associations operate in different ways. Some serve as central agents for members of the association, obtaining foreign orders, negotiating sales, and performing all shipping operations. Others direct the exports of their members and retain certain functions in export trade, but allow the members to take orders through their established agents abroad. Or, again, the association may be formed for the purpose of buying the products of its members and reselling them in foreign markets.

Among the advantages claimed for such associations are the standardization of grades, contract terms, and selling conditions; the consolidation of shipments, with consequent lower transportation costs; economies in joint advertising and other sales promotion operations; greater advantages in bidding on and obtaining large orders; the stabilization of export prices; and the advantages in filling orders for varieties of grades, styles, or dimensions, by the allocation of orders among the different members.

By the foregoing methods of conducting export trade, the manufacturer or other producer, in most instances, will not find it necessary to maintain a complete or elaborate export department, or other specialized staff to care for all details. His transactions are with agencies or middlemen in this country who are themselves experts in foreign trade, and who either purchase outright or assume responsibility for all or most of the technicalities involved in financing, shipping, and sales promotion.

Although some manufacturers or producers may be able to do a good volume of business through one or more of the agencies just considered, others may not find it so satisfactory for their particular products. In many instances, manufacturers prefer to conduct their export business with customers or intermediaries in foreign countries directly. By so doing, they have found it possible often to do a large volume of business more economically, and to have more direct control of marketing methods and sales promotion. The more direct method of exporting involves, of course, the creation of a suitable export organization for handling the details of the business and for establishing and maintaining appropriate foreign outlets. In other words, the manufacturer or other producer himself assumes responsibility for the important functions and services performed by the different types of exporting middlemen or intermediaries just described.

The Company Export Organization

The kind of organization which the exporting manufacturer adopts depends very largely on the character of his product, the volume of export business he expects, and the size and resources of the company.

Regardless of the volume of business, however, any company entering direct exporting will find it necessary to maintain at least some functional system or a special division, charged especially with the promotion and handling of the foreign portion of the business. The forms of organizations generally used may be divided roughly into three classifications, known as the built-in department, the separate department, and the export sales subsidiary or international company. In each instance a well experienced qualified export executive should be employed. This does not, however, preclude the use of export Commission houses or export merchants on occasion.

The Built-In Export Department. This is the simplest form of home organization and may be adapted to the needs of manufacturers doing extensive business abroad, as well as to the requirements of those whose exports are relatively small. In this set-up the existing personnel is used, and often the only addition is that of an export manager or sales executive who will supervise export sales independently of domestic sales. Sometimes, however, foreign sales are handled by the general sales department, with specialists therein to handle details in connection wtih export. All other functions relating to the foreign end of the business, such as accounting, traffic, shipping, advertising, and credit, are taken care of in regular departments devoted to the domestic business of the concern.

The chief advantage of this plan lies in its economy and flexibility. The degree of success attained, however, will depend to a large extent on the cooperation the export executive or other person in charge is able to obtain from the various departments of the domestic system, which on their part must be made conscious of the importance of the foreign business, not always an easy task. A significant part of the export manager's job is coordination of the activities of all interested departments as it pertains to each individual export transaction. Sometimes a vice president is made responsible for the administration of the foreign part of the company's operations, to whom the manager reports. The export manager generally is charged with carrying out all company policies with respect to export, conducting foreign correspondence, and making and maintaining contacts with foreign representatives or other foreign outlets.

The Separate Export Department. If the volume of foreign business is large, or if it outgrows the capacity of the built-in department, a more specialized organization may be more desirable. In such a case the work probably can be carried on much better by a special department. The export manager thus becomes directly responsible for functions relating to export, having within his department special divisions, possibly headed by managers, in charge of sales, advertising, foreign credits and collections, traffic and shipping, accounting, etc. He has full responsibility for selecting and training his sales staff, as well as selecting his foreign distributors. The separate department may be located at the head office of the company, or at New York or some other seaboard center, according to the advantage to be gained.

Export Sales Company. Although most exporting manufacturers do not develop export organizations beyond the separate export department, some larger companies have found it advisable to set up special export sales subsidiaries or international companies, in which all foreign sales are free from the jurisdiction of the parent company so far as it concerns policies and general operations in foreign trade. Such companies handle foreign business which ordinarily would be conducted through the parent company's export department. Generally, the separate company buys goods for export from the parent company, pays the latter for purchases, and endeavors to show its own profit. The selling company handles merchandising, credits, collections, accounting, and all other operations and responsibilities connected with the export business, and prepares its own statements of profit or loss. Profits earned on the foreign business usually are consolidated with those shown by the parent company from its domestic operations. The selling company has its own board of directors, and is supervised by a president, with a complete staff of executives and subordinate personnel. It is of particular advantage in coordinating the foreign sales of several factories owned by a parent company making different products, or those of manufacturers of allied products. The company may be located at plant headquarters or at seaboard, according to the advantages to be gained. If the manufacturer's foreign business requires foreign factories, branches, or assembly plants, the separate selling company becomes almost a necessity.

Channels of Distribution Abroad

The manufacturer or other producer selling abroad by the direct method through his own export department must build up his own outlets in foreign countries. He must seek out the most appropriate and effective channels of distribution in the countries in which he proposes to sell. These will be determined mainly by the nature of his product and the existing trade practices. For the majority of products, the foreign middleman serves an important function. In other cases sales may be made to the ultimate consumer. He could be one of a large number of types of business enterprises abroad: mining company, plantation, factory, wholesaler, importer, retailer, broker, factor, resident buyer, trade fair, bazaar, and so on. The principal intermediary selling agencies used in foreign countries are manufacturers' representatives, foreign distributors, and retailers.

The Manufacturer's Representative. The function of the manufacturer's representative abroad, who may be either a firm or individual, is to sell to customers in his territory and submit orders to the American producer for shipment directly to the buyer. He works usually on a straight commission basis. He does not guarantee the credit of the buyer, leaving that risk to the United States supplier. The representative himself is not a credit risk, since the manufacturer receives payment directly from the foreign buyer. Ordinarily he does not stock

merchandise, although sometimes he may combine his special selling function with a business similar to that of the import merchant, carrying some stock for his own account. Often such foreign representatives are called sales agents or indent agents. However, an increasing number of manufacturers avoid use of the term "agent" as applying to this type of outlet, because the laws of some foreign countries are very exacting on the relations of agent and principal. The term "representative" very frequently is used in preference.

The manufacturer's representative sells usually by means of samples, catalogues, and price lists. Generally there is a contract between the manufacturer and the representative for a definite period of time, specifying the territory in which he shall operate, compensation, terms of sale, methods of advertising, and other rules to be observed. The manufacturer should satisfy himself that the representative is familiar with the goods he contracts to handle, and that he is not selling a competing line. The representative's standing in a particular market should be well known also. Obviously the manufacturer will make his selections from among those who already have established contacts with the particular types of buyers he wishes to reach. He will be interested likewise in having information on the representative's nationality and, where possible, the names and nationalties of his other principals.

Foreign Distributor. In many cases, the exporting manufacturer or other producer will prefer to have his export business handled directly through foreign importers, who buy outright on their own account and stock merchandise for resale in their markets. Such firms generally are referred to as distributors, and may be wholesalers, jobbers, or, in rare instances, retailers. Sometimes they are called agents, but only in the sense that they constitute primary outlets and often have sole selling rights in specified territories. They act as import merchants rather than as sales agents or representatives. The distributor may fix his own resale prices on the basis of landed cost, or there may be an agreement in his contract with the supplier concerning them.

Manufacturers and other producers who do a large business and have well-organized export departments generally favor the distribution of their goods through these outlets. Specialty products, as well as products calling for expert knowledge and servicing, have been handled very satisfactorily in this way. Obviously, the suitability of such houses as a means of distribution must be carefully studied and determined by thorough investigation. Since the supplier makes his sales outright, allowing substantial discounts from list prices, the credit risk involved is such as to require close check on business reputation and credit standing.

When a distributor is given exclusive selling rights within a specified territory, he is referred to as an exclusive distributor. Although some American suppliers make it a practice to concentrate their business in one good name in a territory, others for good reasons find advantage in

spreading the business among a number of separate outlets. Policies in this respect are determined generally on the basis of practices in individual markets and on the character of the goods. When given exclusive rights, the distributor often assumes full responsibility for sales promotion and servicing within his area. To assure against misunderstanding, the conditions under which the distributor is to operate should be set down clearly and specifically in an agreement, which may involve such matters as the territory to be covered, the facilities the distributor must maintain, stocks to be carried, the merchandise to be handled, terms of payment, the use of trade-marks, etc., as well as the supplier's obligations to the distributor.

Foreign Retailer. Selling directly to foreign retailers is a very intensive method of distribution, usually developed by the manufacturer's own salesmen or representatives. Sometimes, however, products may be marketed effectively in this way through circulars, catalogues, and samples. It has the advantage of enabling the manufacturer to operate nearer to the ultimate consumer, and gives him opportunity to study the market more closely. Articles which are of standard utility, which require little or no servicing, and which are easily promoted through advertising, are handled most satisfactorily by this method. Selling through retailers, while eliminating commissions in the wholesale links, requires a much more elaborate foreign sales organization, with commensurate expense. The greater number of customers, furthermore, calls for larger credit facilities and added financial risks.

Overseas Operations

WHERE THE VOLUME and nature of the business warrants it, an exporting manufacturer may circumvent the foreign middlemen just discussed by maintaining his own direct outlets overseas in such forms as foreign selling branches or subsidiaries and foreign manufacturing or assembly plants.

The Foreign Sales Branch. The foreign sales branch office operates much the same as a foreign distributor, except that the manager is of course responsible directly to the home office and is an actual part of the parent company. It handles all distribution and promotion within its territory and works through local wholesalers and dealers. It is most frequently found in cases where the product is of a highly specialized nature and where considerable inventories must be kept on hand. Frequently such distribution requires replacement parts and service, and thus highly trained salesmen, repair men, and technicians.

The Foreign Factory or Assembly Plant. In this case, either the actual manufacturing or assembly is done within the country where large markets are available. It presupposes, of course, a large and steady volume of business. Among the advantages claimed are savings in transportation and other costs, due to proximity to consuming

markets, often cheaper labor and direct touch with the raw material supply, and the elimination of import duties and other restrictions of foreign countries on imports. The fact that the product is made within the country of distribution often is an important element aiding in winning local goodwill.

The Foreign Subsidiary. In distinction to the foreign branch, the foreign subsidiary for sales is a separate company incorporated under the laws of the foreign country in which it is situated. It may be a foreign stock company or a limited liability company. The capital stock is owned wholly by the parent company, or controlled by it. The subsidiary may be organized for both manufacturing and distribution. It may act as a distributing agent for certain territory or section, or its functions may cover a very wide area. In some instances, closely allied or associated products of other companies are handled also.

Licensing for Foreign Manufacturing. More and more United States manufacturers are entering into licensing and royalty agreements with firms abroad. The United States company that understands how to use this technique can take advantage of the growing potential in foreign countries. The establishment of the European Common Market and the European Free Trade Association, involving the leading industrial nations in Europe, will make licensing by U. S. enterprises even more important than heretofore. Because of the growing desire of developing countries to increase production within the country, the level of U. S. overseas investments has moved ahead at a rapid rate. Smaller companies which do not have the resources to make major capital investment abroad may find licensing the means of entering expanding markets abroad.

If conditions are favorable, licensing for foreign manufacture offers a practical way to scale otherwise insurmountable restrictive walls in overseas markets. If the foreign government considers a particular license agreement to be of special importance to the national economy, it may offer concessions or benefits in connection with taxes, customs, import licenses, and so on. There are many factors which a prospective licensor, whether a large company or a small one, must take into account before entering into licensing arrangements with firms abroad. Ascertaining the need and demand of foreign businessmen for United States know-how, technology and capital; what the prospective market has to offer; the nature of protection of patents and trademarks abroad; the ability to make dollar remittances on royalty agreements; the competitive advantage, if any, of the product involved are only a few of the matters to be considered.

The license agreement may be the simple grant of the use of proprietary rights, such as trademark or patent, in return for royalty payments, or may be a combination including technical assistance and service.

The U. S. Department of Commerce and its field offices in principal cities throughout the United States have publications, reports, and

other material useful to the prospective licensor. Also, the International Cooperation Administration has an interest in this activity in that it makes available to United States licensors and investors in certain countries insurance against inconvertibility and expropriation. See *Investment Guaranty Handbook* and other useful sources of information in the selected references section of this booklet.

U. S. Participation in Foreign Company. United States firms may make capital investments in foreign countries not only by setting up their own subsidiaries, but by purchasing an equity in a going foreign concern or by forming a new joint enterprise. A number of U. S. firms have decided in recent years to service foreign markets through companies in which they do not have a majority financial interest. In some cases these decisions were dictated by foreign laws. To insure local control over key enterprises, some countries require foreign companies to be incorporated, wholly or partially owned by nationals; and, in some cases, governments require local participation in the management of these enterprises. U. S. companies may also advantageously subcontract with foreign manufacturers for the production of either component parts or entire units.

While profit is the prime motivation of an investor, it is only a part of the total benefits to the economic welfare of the country in which the investment is made. There are, of course, governmental revenues generated by private investment, but even more important is the additional economic activity and development of resources and markets resulting from the investment.

The link between trade and investment permeates the whole field of U. S. commercial relations with other countries, and the continual rise in U. S. private investment abroad (direct and indirect) implies a growing return flow of profit.

U. S. business and private investors increased their assets and investments abroad by over $5 billion in 1960, raising total holdings to more than $50 billion. Direct investment accounted for $3 billion of the increase and amounted to a total of $32.7 billion at year-end. Incomes on investments in 1960 reached a new peak above $3¼ billion. This again, primarily consisted of income from direct investments.

Foreign investment is a highly complex subject, the detailed treatment of which is not within the province of this text. United States firms considering capital investment abroad will find many sources of information, some of which are listed in the selected references section of this booklet. Also, the Bureau of International Business Operations of the U. S. Department of Commerce is prepared to extend individualized guidance in regard to foreign investment, and has issued a series of booklets regarding the opportunities and incentives for investing in different countries.

3. *ANALYZING EXPORT OPPORTUNITIES*

THE FIRST STEP which should engage the attention of the manufacturer or other producer who contemplates exporting directly is a thorough study of the market potentialities for his product and the problems which he is likely to encounter. In any initial survey of the position of the company relative to export, a number of questions must be answered. What, for instance, is the present international trade in the product? What countries buy this line of merchandise? What is the relative order of importance among them? How much of the foreign demand is the United States supplying? From what other countries does competition come? What alterations will be necessary to adapt the product to foreign preferences and usages? What are the foreign import restrictions? What is the country's foreign exchange situation? Through what kinds of channels are the goods distributed? At what prices are they being sold? What are the various costs connected with the export operation?

The business concern first taking an interest in the possibility of doing export business will do well to assign someone to study the question in its broad aspects and to lay before the responsible heads of the company the case for or against an active export policy. This task may be assigned to an officer of the company, or to some responsible member of the office force, or it may be delegated to some outside agency. There may be advantages in certain circumstances to having the job done by a member of the company's staff who has a knowledge of the line and the way it is handled in the domestic field.

United States Exports Statistics

STATISTICAL data on commodities exported from the United States, and the countries to which they are sent, are compiled regularly from export declarations made by individual shippers and filed, as required by law, with the United States customs officials. Although records of the business of individual exporters are held in strictest confidence by the Government, they are compiled in summary form to show the value, and the quantity where possible, of many commodities or class of commodities exported by all shippers combined within a stated period, and the separate countries to which they are consigned. These statistics are published by the Bureau of the Census of the United States Department of Commerce on a monthly, quarterly and annual basis.

From these statistics it is possible to ascertain readily the extent to which American products are bought in foreign countries. Such figures, considered in conjunction with home production, demonstrate in a

broad way the importance of foreign trade in a particular commodity and the countries which appear to be the most favorable markets. Compilations are published by the Bureau of the Census under the title of *Foreign Commerce and Navigation of the United States,* referred to in the list of references. Current monthly figures are available also in separate pamphlet form from the Bureau, selections from which may be made from listings furnished on request. All material will be found on file at field offices of the Department of Commerce in principal cities.

When it is apparent that his own competitors in this country are selling extensively in particular foreign markets, the prospective exporter has the answer to several questions. He knows that there is a demand in those markets. He knows that the American product meets the market requirements satisfactorily. He knows that transportation conditions do not rule out his product, and that the customs tariff hurdle is not too high to get over. He knows that American prices, quality, and service have been able to withstand competition from foreign sources of supply.

Competition of Foreign Countries

IN CONJUNCTION with the export statistics of the United States, the manufacturer may wish also to examine the import statistics of those countries which appear to offer prospects of development as outlets for his commodity. These figures will reveal the extent to which his product or similar products are being imported by the country in question from other foreign sources and the competition one may expect therefrom. The relation of such imports to imports from the United States will indicate the degree to which American products are in favor.

The trade of foreign countries is under constant study by the Bureau of International Business Operations of the United States Department of Commerce through reports received from Foreign Service Officers. The results of such studies are readily available to all interested parties, particularly through the *World Trade Information Service* and the *Foreign Commerce Weekly* published by the Department, commodity trade statistics compiled by the United Nations, and other listings in the selected references section of this booklet.

Reports of Foreign Service Officers

THE Foreign Service Officers of the United States render informational and other services which are of value to businessmen interested in foreign trade. The consular corps, serving under diplomatic chiefs, is charged especially with duties pertaining to commerce with the countries in which they serve. They collect and analyze all available data on trade, finance, production, shipping, current market conditions, and many other factors. They supply a wealth of information on subjects of general social and economic significance of particular value in surveying foreign markets. In the encouragement of trade, they advise on

potentialities within their districts, submit trade lists and sales information on foreign firms, serve local inquirers in advising about American sources of goods, endeavor to adjust business disputes, and perform many other services of value to the American foreign trader.

Such information reported by Foreign Service Officers is analyzed by experts in the U. S. Department of Commerce and made public for the benefit of all interested parties. Much of the resulting information markets and trading conditions is published periodically by the Department in a series of reports known as *World Trade Information Service.*

Standards of Living

WHERE the proper data can be obtained, indicators of the relative purchasing power of populations are especially desirable in evaluating markets, particularly in the choice of those which are still underdeveloped. Mere size or density of population is no proper guide. One country or section of large or dense population may turn out to be a much smaller or less desirable market for a product than one having a smaller or sparser population, because of lower per capita income, even though the desire to buy may be equally strong in each. No amount of advertising or intensive sales promotion can overcome this handicap fully.

Of great advantage are per capita figures on such items as income or expenditure, automobiles, radios, telephones, or savings deposits. The extent of electrification and improved roads often has considerable significance. The degree of literacy, standards of education, and the distribution of language groups also may have important bearing. Studies of individual countries, published by the Bureau of International Business Operations of the Department of Commerce and in some cases by the Department of State, incorporate a wealth of background information for this purpose. Many other, private and public, sources are also available.

In some countries local customs, preferences, and prejudices are factors which cannot be ignored in determining the salability of particular products. These may have their foundation in racial and social characteristics, or they may be a reflection of a stage of development, low educational standards, or type of living. A general survey of the historical background of a country, especially as it relates to customs, religion, the character and distribution of social classes, progressiveness, and bias against products of the United States or other countries, may form a desirable part of market analysis. Sometimes slight alterations in a product, or in its packaging or advertising, will increase its attractiveness and serve to overcome prejudices or resistance due to custom or taste.

Foreign Trading Channels

THE LOCAL methods by which imported goods are distributed in a foreign country can be a factor of considerable weight in the choice of

markets. In the more progressive or well-developed countries these channels are fairly well standardized, and may differ only in minor respects from our own, but in others there may be peculiarities as they relate to particular commodities which will make markets relatively unattractive. The direct manufacturing exporter or other producer, therefore, must know what distributive facilities exist and the effectiveness of the various functional types for handling his products, or how his customary merchandising methods must be altered to suit them. The existing organization should be studied also from the point of view of servicing the product, if that is required.

It is hardly necessary to say that in engaging the services of middlemen or other export facilities in the United States, or in making direct connection with distributive intermediaries abroad, the exporting manufacturer or producer is obligated in his own interest to use great care in studying not only the adaptability of any one type of channel to his particular needs, but also the credit standing, integrity, and business methods of the firms or individuals to whom he sells or with whom he contracts to perform the business. Integrity and honesty, of course, are basic requisites, but aggressiveness, high-class reputation, intelligence, and promise of permanency in business, are of prime importance. This is particularly true if the product is of a technical nature, requiring some special training in application or servicing.

The selection of direct outlets abroad is made in various ways. Some manufacturers find it best to contact their foreign agents or distributors through personal visits and interviews by a factory representative. There are, of course, many advantages in this method, if it can be done. It gives a chance not only to study the qualifications of the representative or distributor himself, but to investigate the characteristics and potentialities of local markets as well. In other cases, agents or distributors have been engaged successfully through advertising in export business magazines. Often initial contacts are made through direct solicitation on the part of the representative or distributor himself, having become interested in the company's product from such advertising, or through catalogues.

The Bureau of International Business Operations of the United States Department of Commerce is in a position to furnish the names of foreign representatives, distributors, and other trading firms in all important areas of the world, and valuable information on the character of their businesses and lines handled. Trade lists are classified under major commodity groups and are available for $1.00 per classification per country.

Tentative selections which appear promising may be checked through *World Trade Directory Reports* also furnished by the Department at $1.00 per report, for important data on general reputation, type of organization, capital, credit references, and general sales information.

Especially useful in selecting a distributor in the less-developed and newly independent countries is the service called *Trade Contact Sur-*

vey. This is an individualized service of the Bureau of International Business Operations for which a charge of $10 is made. It is designed to locate several foreign firms in a particular country which meet the specific requirements and which express an interest in the representation offered.

Still another facility is that designed to promote the ready sale of American products in foreign markets by providing United States Foreign Service posts throughout the world with the names of the foreign outlets of United States firms. Called *Agency Index,* the record is maintained on form FC-30, available from Department of Commerce Field Offices or from the Department of Commerce in Washington. U. S. manufacturers and exporters are invited to submit the information regarding their agents and licensees in each foreign country and send them to the Department.

In the selection of appropriate distributive agencies, helpful guidance may be obtained also from banks and advertising agencies interested in foreign trade, other exporters, foreign chambers of commerce in the United States, local chambers of commerce, American Chambers of Commerce Abroad, and export business magazines. The Small Business Administration, Washington 25, D. C., also publishes *Management Aids* for the small exporter and provides counseling service.

There is wide variation in practice as it concerns the nature and scope of contracts with representatives and distributors. Most manufacturers find it advisable to have explicit written agreements establishing the duties and responsibilities of both parties. Contracts range anywhere from complicated formal legal documents to simple agreements arrived at through exchange of correspondence. Often a manufacturer will use a modified form of agreements customarily used in domestic distribution. Basically, the agreement establishes the territory to be covered, commissions or other remuneration, terms, methods to be employed, duration of the contract, and any other specific duties and responsibilities of each party which the nature of the relationship dictates.

Foreign Import Restrictions

MANY COUNTRIES have certain restrictions and formalities which govern the entry of foreign merchandise across their boundaries. Such regulations vary in severity in different countries. Usually they are associated with the degree of control each government desires to exercise over its foreign trade, for revenue or protection, or for balance of payments reasons. They are directed generally toward a planned inflow and outflow of goods and services in order that unbalance may not result in too great a drain on a nation's resources, foreign exchange reserves, or produce other unfavorable effects on their economies. In effect, they constitute barriers to a free flow of trade and set certain limits within which export business can be done. Most important among them are custom tariffs, import quotas, import licensing, and foreign exchange control. These are discussed in Chapter 7. Despite

recent improvements, such restrictions may be expected to persist for some years to come.

The prospective manufacturing exporter should know if there are current import restrictions on his products, the nature of all general restrictive measures, and particularly those which may affect the entry of his particular goods, and payment therefore. Frequent changes take place in foreign import regulations and controls. The Bureau of International Business Operations is prepared to furnish basic data on the subject, and publishes current information on individual countries through *Foreign Commerce Weekly* and other means. Notices are carried also in many export magazines, in bulletins of banks in foreign trade, and in *Exporters' Encyclopedia* and periodic supplements. Foreign freight forwarders and steamship and air lines necessarily are well informed on all such matters. Changes from time to time are also reported by chambers of commerce in bulletins to their membership.

United States Export Control

IT IS NECESSARY also that exporters keep abreast of the export control regulations of the United States. Since the war, there has been a continuation of the export licensing system for the purpose of conserving scarce commodities and implementing the foreign policies of the United States. Frequent changes have occurred in the structure and scope of the control system, as well as in the commodity lists subject to export license, to meet changing conditions. Export licensing is centered in the Bureau of International Programs of the United States Department of Commerce. Full information may be obtained on all current requirements from this Bureau or the field offices of the Department.

Export controls have been used to prevent certain goods useful for increasing a country's war potential from reaching the Communist bloc.

The whole field of export controls is covered in the *Comprehensive Export Schedule* issued by the Department of Commerce. The Schedule is kept up to date by the issuance of weekly *Current Export Bulletins.*

Legal Aspects of Foreign Trade

AS THE exporting manufacturer or producer gets into the international market, depending on the nature of the goods and the manner in which they are distributed he will become familiar with the many legal aspects of foreign trade.

The whole matter of foreign commercial law is a detailed and complex one. On specific points, however, much helpful guidance is available on trading under the laws of different foreign countries through published material of the United States Department of Commerce, or through consultation.

The remoteness of the markets, the variations in characteristics, and the specific problems which each presents, emphasize the importance

of having at hand every available fact as it pertains to the salability of the product and the permanence of the business. Much of the information suggested is a matter of public record in this country, but it may well be supplemented and refined, of course, by traveling investigators which the company may wish to put in the foreign field.

Private Sources of Information

IN ADDITION to utilizing the variety of services and information offered by the Department of Commerce and field offices, the export executive will wish to make use of every other source of information and advice available to him, not only in formulating his initial program, but in the actual conduct of his business. There are various types of private organizations and services devoted to foreign trade promotion in different ways in which he may find it beneficial to participate, or through which he may obtain guidance and assistance on specific points.

Among these may be mentioned foreign trade clubs or associations, world trade or foreign trade departments or bureaus of local chambers of commerce, the Foreign Commerce Department of the Chamber of Commerce of the United States, the foreign departments of banks, credit reporting agencies, advertising associations and agencies, American chambers of commerce in foreign countries, foreign chambers of commerce in the United States, export trade magazines and periodicals, export trade services, and standard reference works. Mention of such facilities is made at appropriate places in the text and reference notes at the end of this booklet. Some of them are commented upon briefly in the following paragraphs. Lists of most will be found in the *Foreign Commerce Handbook.*

Foreign Trade or World Trade Clubs

Foreign trade or world trade clubs play a unique role in the exchange of international trade experience and opinion. The membership of these organizations is composed largely of foreign trade executives within a community. Many clubs hold weekly or monthly meetings where day-to-day developments and problems are discussed. Often records of discussions are taken and made available to members.

Some clubs conduct lecture courses, forums, or clinics, frequently in connection with educational institutions, in which the various aspects of foreign trading are formally presented, followed by discussion periods. Printed or mimeographed copies of lecture courses or clinics of some clubs or organizations are available for limited distribution at reasonable charges. By associating himself with such local organizations and contributing to their activities, the newcomer to export may make contact with experienced executives which will be of utmost value in the solution of many of his problems.

Chambers of Commerce and Foreign Trade

Chambers of Commerce throughout the United States in increasing

numbers are playing an important role in the promotion and service of foreign trade. Many of them have special departments or bureaus devoted exclusively to the interest of exporters and importers. Members are kept advised as to all foreign trade developments and are given many valuable specific services. Some bureaus publish periodic bulletins and sponsor foreign trade forums and discussions. The new foreign trader should not overlook the possibilities of his locality for this type of service in laying his plans and in carrying on his business. Industry trade associations, local or national, are also valuable sources of information as it concerns the place of particular industries and commodities in international trade.

The Chamber of Commerce of the United States is a federation of local and state chambers of commerce and trade associations, among its specialized departments is the Foreign Commerce Department. This Department deals with national problems, issues and policies in foreign commerce and related fields. It provides information and service of direct benefit to businessmen, and issues publications for better public understanding of issues as well as those in the service category, such as the present text. Other National Chamber publications in the international economic field are listed in the selected references section of this book.

Banks in Foreign Trade

Numerous larger banks throughout the country, both inland and at seaboard, maintain foreign departments which perform not only all functions connected with the financing of export and import shipments for their clients, but are prepared to advise and render service on many general and specific points and problems in foreign trade. Through their foreign branches or correspondents, they are enabled to keep abreast of all current developments and conditions throughout the world. Many of them conduct extensive foreign market surveys and publish frequent bulletins carrying important kinds of data of extreme value to foreign traders. The broad experience and contacts of their staffs place them in strategic positions to render advice and service of a highly authoritative nature.

Foreign Trade Periodicals

There are numerous foreign trade journals, magazines, and other periodic publications which are of extreme importance to the foreign trader in bringing to him much of the news and diverse information he needs currently in the conduct of his business. Some are general in the scope of subjects covered, dealing with the broader aspects of trade and conditions affecting it. Others are more specialized in coverage, confining their material to such interests as shipping, forwarding, insurance, or foreign market conditions. Still others are published primarily for advertising American export products, and have wide circulations in foreign countries. Many periodic letters or bulletins are

issued by banks, chambers of commerce, and other organizations which are extremely valuable. The differing nature and purposes of such publications makes any description of their specific usefulness impossible, but the list should be examined carefully in an attempt to select those most suitable to individual circumstances. A convenient summary of periodic publications may be seen in the *Foreign Commerce Handbook,* both in classified list form and in connection with specific subjects.

National Foreign Trade Council

The National Foreign Trade Council, Inc., 111 Broadway, New York 6, N. Y. was created in 1914 to secure the cooperation of the Government and industrial, commercial, transportation, and financial interests in a national effort to extend our foreign trade. It is a medium for the exchange of information, for the study and investigation of many special problems, and for effective cooperative action and influence where the interests of foreign traders are concerned. It sponsors the National Foreign Trade Convention held annually in New York, at which the problems of American foreign trade are discussed and reported upon. The printed proceedings of these conventions provide an invaluable record of economic developments and of the current questions before the country in respect to our commercial relations with the rest of the world.

4. *HANDLING AN EXPORT ORDER*

IF THE EXPORTING manufacturer or other producer sells abroad through middlemen located in this country, the details incident to preparing, shipping, and financing orders may be comparatively simple and differ only in minor respects to selling in the ordinary domestic market. When, however, his business is done through outlets abroad, he assumes himself all responsibility for handling properly the various steps involved in direct delivery.

While many of the underlying procedures are similar to those characteristic of domestic transactions, there are certain special elements present in the foreign operation which require much more detail and unusual care and completeness, to prevent misunderstanding and consequent inconvenience, loss, or dispute, and to meet the foreign trade requirements of this and separate foreign countries. Some of the principal considerations involved in the direct execution of an order, therefore, are considered in this chapter.

Although a substantial part of our export business is done by overland routes with Canada and Mexico, the bulk of export shipping is done by vessel with overseas countries. The discussion in this and following chapters, therefore, is directed primarily to factors involved in trade by the latter method of transportation. Some minor differences in transportation details and other matters will be found in the case of exports by overland routes, as well as in shipments by air.

The Quotation

In foreign trade a quotation signifies not only price, but all other fundamental conditions of a possible sale. It states clearly what the prospective seller is willing to do and what he expects of the person to whom it is made, in case it is accepted. Besides actual price, it takes into account such matters as the place of delivery, the form and method of payment, the insurance coverage, methods of transportation, and all necessary items concerning quantity and quality of the merchandise and the time of delivery or shipment. An export quotation, except when made qualified, is an offer, the final acceptance of which by the purchaser constitutes an export sales contract.

Elements of a Quotation

Among the principal items which ordinarily form parts of an export quotation and which should be stated clearly and be mutually understood by the seller and the buyer, are the following:

How far the goods are to be carried at the expense of the seller.

Where the seller's responsibility for loss or damage in transit ends, and where that of the buyer begins.

The terms of sale, which include the date of shipment or delivery at a specified point, a description of the merchandise with stipulations as to quality and guarantees thereof, the price and the currency in which drafts are to be drawn and payable, and the unit of quantity or measurement in which the price is quoted.

The form of payment, which indicates whether it shall be by letter of credit, straight draft, acceptance, or other form, with understanding concerning regulations in the importer's country relative to payment in any form.

The method of payment, or whether drafts shall be drawn against sight or date, their tenor or length of time they are to run, the terms of a letter of credit if opened, what documents shall be attached to drafts, and whether drafts are to be drawn against payment or acceptance.

Any additional detailed technical or other specifications necessary for a proper understanding of the proposed transaction.

In calculating price, the seller will need to consider many items of cost which will differ greatly according to the circumstances of each transaction. Many of them will be determined by the extent to which he assumes the payment of transportation costs, the method of insurance coverage, and service and miscellaneous fees or expenses involved in the shipping operation. These will become more apparent in the discussion which follows.

There probably will be necessity for special packing to meet ocean shipping and foreign government requirements, and possibly some alteration or modification of the product itself to meet foreign needs. These may create costs substantially over those commonly involved in the preparation of goods for the domestic market. The final quotation will be dependent, further, on the credit terms extended, if any, the buyer's position as a general importer, a wholesaler, a retailer, or a consumer, and matters relating to the general sales policy of the company.

Shipping Expense and Responsibility

There are several types of foreign trade quotation which designate the different stages in the transit of merchandise over which the shipper specifies he will assume transportation expense and be responsible for the goods. These generally are expressed by abbreviations, the meanings of which are well defined. For instance, the seller may make a quotation which obligates him to pay transportation expense only until the goods are placed along side the vessel at the port of export, say New York. The term then would be designated as f. a. s. (free along side) vessel, New York, Or, in another case for example, the seller may make a quotation which includes the cost of the goods, marine insurance, and all transportation expenses to a named port of destination, say Rio de Janeiro. The term then would be c. i. f. (cost, insurance, freight) Rio de Janeiro. Through common usage, such terms

have become more or less standardized as representing mutual understandings concerning costs, risks, and obligations of the seller and buyer. Complete information on all of them are available readily to shippers, but by way of illustrating here the differing responsibilities of seller and buyer in separate instances, brief outlines of the main features of the two mentioned are given below.

F. A. S. Vessel New York. Under this term, for instance, the seller quotes a price which includes delivery of the goods along side the overseas vessel in New York and within reach of its loading tackle. He must provide a clean dock or ship's receipt, and be responsible for any loss or damage, or both, until the goods have been delivered along side the vessel or on the dock. He must render to the buyer, at the latter's request and expense, assistance in obtaining documents issued in this country which are required for exportation or for importation in the country of destination. The buyer handles all subsequent movement of the goods, paying for ocean and other transportation, insurance, other charges, and costs and charges incurred in obtaining the required documents other than the dock or ship's receipt. He is responsible for all loss or damage, or both, while the goods are on the dock, on a lighter or other conveyance along side the vessel, or until actually loaded, and subsequent thereto. It is common practice for the American shipper, upon agreement, to arrange for transportation and other matters for account of the buyer.

C. I. F. Rio de Janeiro. In this case, the seller quotes a price which includes the cost of the goods, the marine insurance, and all transportation charges to Rio de Janeiro. He must obtain and dispatch to the buyer or his agent a steamer bill of lading to the point of destination and an insurance policy or negotiable insurance certificate covering the goods. He must provide, at the buyer's request and expense, all documents which the buyer may need for importation of the goods into his country. He is responsible for all loss or damage, or both, until the goods have been delivered on board the vessel, in case an on-board ocean bill of lading is required, or until the goods are in custody of the ocean carrier, if a received-for-shipment ocean bill of lading is called for. The buyer is responsible for all loss or damage, or both, thereafter and must make all claims to which he may be entitled under the insurance coverage directly to the underwriters. He must accept the documents when presented, receive the goods upon arrival, and pay all costs of landing at Rio de Janeiro in accordance with the bill of lading clauses, as well as customs duties and wharfage charges, if any.

Standard Foreign Trade Definitions

The extreme importance of perfect mutual understanding of the costs and the risks to be assumed by each party to the contract of sale makes a standard interpretation of price quotation terms necessary. Differences in interpretation in the past have led to much confusion

and frequent misunderstanding between buyers and sellers. To bring about uniformity, standard definitions for all price quotations were adopted by a Joint Committee representing the National Foreign Trade Council, the National Council of American Importers, and the Chamber of Commerce of the United States, in 1919. These were revised in 1941, and are known as the *Revised American Foreign Trade Definitions—1941*. They are recommended for general use by exporters and importers. Increasing acceptance of them has made for greater uniformity of interpretation and the avoidance of much disagreement. They have no status at law, unless there is specific legislation providing for them, or unless they have been confirmed by court decisions. It is important, therefore, that the seller and the buyer agree voluntarily in advance that these standard definitions will govern the sale. When this is done, the meanings as adopted in the contract become legally binding on all parties concerned in the transaction and there is little or no excuse for dispute in interpretation. The definitions are available in pamphlet form from the National Foreign Trade Council, 111 Broadway, New York 6, N. Y. for ten cents per copy, and are reproduced in many reference books on export practice. Other standard definitions are known as the *Warsaw-Oxford Rules* for voluntary acceptance governing c. i. f. contracts, and *Incoterms—1953* of the International Chamber of Commerce, the latter being a set of rules for the interpretation of terms used in international trade.

Transportation and Communication

In order to figure accurately all costs involved in his export shipment, the exporter must have on hand, or be able to ascertain readily, the detailed data required on all steps involved in the transportation of his goods. This is a function, obviously, of his traffic department. In ocean shipments, the first consideration is the question of selecting inland routes and costs to seaboard, by railroad, inland waterway, or truck. The proper routing of freight by inland carrier is very important from the point of view of economy and time. The choice of carrier will depend also on the port facilities available, possible port congestion, and the amount of trucking, switching, or warehousing necessary. Since the merchandise usually must arrive at the port within certain time limitations to suit definite sailing dates, the estimated time consumed is a vital factor. Unless definitely fixed by the order itself, the selection of the port from which the ocean shipment will be made depends in large degree on the lowest inland freight charges.

Railroads

Railroads form a very important link in foreign trade transportation, since the bulk of goods for export originates at points which are distant from seaboard centers. The handling of foreign business by the railroads is usually taken care of by specialized staffs, often known as foreign freight departments, with managers or agents in various

strategic parts of the country covering business in their territories. Officers and employees of such departments necessarily are familiar with conditions at ports of the United States served by their lines or connecting lines including the scope of ocean service, frequency of sailings, rates, Government regulations, and many other matters incident to export.

If the supplier is located inland, the transportation of his goods to seaboard becomes a vital factor in the costs involved and in the arrangements he will make for the handling of his goods after they leave his premises. Under certain conditions, the railroad or other inland carrier takes care of transportation from the point of origin only to the seaport, the matter of transfer to the vessel and other details of clearance and proper documentation being assumed by the seller's port office, if any, or by a freight forwarder. Under other conditions, the railroad may take over responsibility for making delivery to the ocean carrier and attending to matters incident to clearance and transportation to destination. The question as to how his goods will be transported throughout the different stages of the journey will be settled by the conditions of the order. In any case, his export department should be thoroughly familiar with inland transportation conditions and practices and take full advantage of all information which railroad foreign traffic departments and their agents are in a position to offer.

The Foreign Freight Forwarder

The technical details connected with the handling of a shipment of goods for export have given rise to employment by many sellers of a type of organization known as the foreign freight forwarder who is prepared to render valuable assistance. A competent and reliable freight forwarder is equipped to look after numerous phases of the shipping problem for the exporter, including all functions connected with transferring, documenting, and dispatching. He is well informed on ocean freight rates in the ports through which the exporter's merchandise moves, and can advise authoritatively on all ocean shipping matters. His activities keep him in constant touch with the many conditions of entry in foreign countries. He is prepared, therefore, to execute efficiently all necessary foreign consular and other documents.

Forwarders may handle a shipment simply through the port of export, or by means of their correspondents abroad, take care of the shipment to virtually any destination overseas. Unless the business of the exporting company justifies the maintenance of an export office at one or more ports in the United States, the services of a forwarder usually are employed to take care, at least, of all details connected with clearance.

The forwarder is prepared to assist the shipper in proper packing, marking, invoicing, and other matters to meet the requirements of the buyer and those of foreign governments. He takes over inland transportation of the goods to the most favorable port of exit in the most

economical way. He arranges for transfer of the shipment upon arrival at the port, attends to U. S. customs clearance, arranges for vessel space and insurance coverage, and takes care of the preparation of consular invoices and often banking and collection papers. Some forwarders perform many related activities, such as banking, financing, insurance, warehousing, customs brokerage, and general counsel in foreign trade matters.

An important part of the freight forwarder's service in providing the most economical and efficient movement for export is the handling of smaller shipments in consolidated carload lots, strictly for export, from a central inland point to seacoast ports.

Combined overseas shipments may be made by the forwarder on a single ocean bill of lading in his own name, with the issuance of his own receipts or bills of lading to individual shippers. These show the name of his foreign correspondent to whom the shipment is dispatched, and he in turn makes proper distribution at the foreign port. Offices of forwarders are located usually at the larger seaboard centers, with representatives at numerous inland points served by them.

Lists of foreign freight forwarders in the various ports will be found in the annual *Custom House Guide.*

Ocean Transportation

Before ocean carriage can be secured a shipping permit may sometimes be required from the steamship company which will carry the goods overseas. This may be secured directly by the company's export department upon application accompanied by a full description of the goods, or by the railroad or a freight forwarder, according to the manner in which it is decided the shipment will be handled. The permit is an assurance by the steamship company that the necessary vessel space will be reserved. The permit is accompanied by instructions as to the time the goods must be delivered at the dock in order that they may be stowed properly in the vessel. When the shipment is finally delivered at the dock, the permit is surrendered for a dock receipt showing the number of units delivered, their markings, and other information. The dock receipt is the basis upon which ocean bills of lading are issued and signed by the steamship company.

In the meantime, the supplier or an agent acting for him will have attended to the preparation of other documents pertaining to the shipment, including the invoice, the export declaration required by the United States Government for clearing the goods, the execution and certification of a consular invoice if that is required by the country of destination, and any other necessary documents. If the shipment is to be covered by draft terms, he turns over to the bank the negotiable copies of the bill of lading, together with invoices, insurance policy or certificate, and drafts, with specific instructions as to the manner in which the documents are to be transferred to the buyer. All documents should go forward to the destination so that they will arrive with or before the goods.

Since ocean freight rates are not supervised in the same way as railroad rates through the Interstate Commerce Commission, ocean rates may be subject to fluctuation from time to time as the supply of cargo space changes. Usually, however, the rates charged by all lines in specified trade routes are the same, because of government-authorized conferences into which most well-established lines are formed. These, to a certain extent, serve to restrict competition as to rates and sailings. Ocean rates, unlike railroad rates, are charged either on the basis of weight or cubical content, according to whichever will yield the largest revenue to the steamship company. This is known as ship's option. The purpose is to enable an equalization in charges between heavy cargo occupying small space and light cargo which requires a large amount of space.

The Mails

The postal services are an extremely important factor in the conduct of foreign trade, from the point of view both of transportation and communication. There is increasing use of the mails for the exportation and importation of many classes of small or light goods by parcel post, for the distribution of samples and advertising matter, and for the dispatch of documents. Parcel post shipments do not form a part of international conventions pertaining to regular mail, but the Post Office Department of the United States has agreements with virtually all foreign countries of importance for the exchange of parcel post packages. The general practice is for the country of origin to pay the country of destination a fixed fee of so much per pound for the handling of such shipments.

Packages to most foreign countries may weigh up to 44 pounds, but there are important areas for which the allowable maximum is very much less, the lowest being 11 pounds or more. Services to all countries are not on a standardized basis from the point of view of rates or routes. In the case of some countries packages may be insured. In a number of instances special handling services are in effect. There is no C.O.D. service to foreign countries at this time.

In foreign transactions, however, services of postal facilities to the supplier are predominantly a means of communication with his customers or representatives, both by surface and by air, for the receipt and dispatch of correspondence, quotations, orders, invoices, documents, and other matter. In this respect, air mail has become of increasing importance as an element in time saving, and to a high degree has displaced other ways of communication. Documents pertaining to steamer shipments, for instance, may now leave the United States several days after the departure of the vessel and arrive at the point of destination before the cargo, by a comfortable margin.

Information concerning the different aspects of shipping or communication by mail may be obtained from local post offices. Requirements with respect to parcel post, as they relate to agreements with separate countries, may be found in Chapter 2 of the *Postal Manual.*

Current data on the subject may be had also by reference to the *Exporters' Encyclopedia.*

Air Transport

Air transport also is a factor of growing importance in foreign trade, through services now being offered by the airlines for express and freight shipments. A continuous flow of merchandise is moving out of the country every day by this means. Air express is a special service for the transportation of merchandise by air, as ordinary express shipments are handled on the ground, and is to be distinguished from air freight.

Packing and packaging for air traffic, as well as the size of units, differ considerably from that used in ocean transportation. Weight and size of cargo are essential considerations, since the load per square foot must not exceed the allowable limits of cargo compartments of planes, and the size of units must be small enough to pass through hatchways. Ordinarily no special packing is necessary, except in the case of fragile goods. Details as to rates, schedules, size and weight of packages, and requirements as to documentation may be obtained from the individual air lines. The names of lines and the territories of their service are published regularly in leading export shipping journals. Regulations of foreign countries as they apply to air shipments may be seen by reference to the *Exporters' Encyclopedia.* Also the *Air Shippers' Manual* and *Export Shipping Manual* are useful air cargo directories containing shipping cost analysis and rates.

Cable and Radio

Aside from the use of the mails for communication, both regular and air, the supplier sooner or later will find it necessary to conduct a considerable portion of his business by cable and radio. There are three general types, namely, plain language, code, and cipher. The use of code and cipher language in communicating with his customers or representatives abroad saves the supplier time and money to a degree which is usually more valuable than the cost of coding. At the same time, when needed, it assures a certain amount of secrecy not obtainable by the use of plain language.

Several classes of codes are used. Commercial or standard codes are general in nature and may be adapted to different kinds of businesses. Technical codes, prepared for use in particular industries or trades, may also be developed. Very often large concerns doing an extensive export business prepare their own private codes.

Message services are full-rate which permits use of codes, and letter-telegrams, using plain language only. Charges, of course, vary with the speed of delivery desired and according to whether plain or code language is employed. In the preparation of codes adapted to his particular circumstances, the seller should have the advice and guidance of the cable and radio companies.

Packing for Export

IN DETERMINING the character of the packing he will employ in ocean shipments, the seller will wish to use the most economical type consistent with full protection for his goods. He will take into consideration also the best interests of his customers in meeting customs requirements of the country of destination, follow carefully all instructions given by them, and create as much sales goodwill as he can by the safety, quality, and appearance of the packing.

Proper packing, of course, is dependent upon the particular hazards a shipment must undergo between the factory shipping point and the final destination. Fragile or perishable goods, obviously, must always have special consideration, but all goods in overseas trade require much more protection than the usual commodities moving in domestic trade, across the borders, or by air. Many shipments consist of packages or containers of exceptional size and unusual weight, and these must be adapted to the transfer and handling facilities at ports, on ocean vessels, and in land transportation systems in countries of destination.

The foreign customer has a great deal to say about the packing to be used, not only for safety, but to meet any special transportation, entry, or marketing requirements in his country. If doubt exists, in the absence of such instructions, the seller will do well to ascertain them and see that they are complied with. The matter of insurance in respect to packing also should be given due consideration. Many times a somewhat higher cost of packing will be offset by much more economical insurance rates. When the packing meets all requirements of underwriters, the rate obviously will be much lower than when it does not.

From the railroad or other terminal at the port of ocean shipment, goods destined for overseas may have to be transferred several times before being stowed in the hold of an ocean-going vessel, with the possibility of dropping or breaking always present. On board the vessel, cargo may shift during rough weather, and may have to withstand damage by sea water. If the vessel passes through the tropics, there is present always the danger of damage by extreme heat and excessive humidity.

At the foreign port the process of unloading to lighters and from lighters to wharf often must be undergone. Sometimes, the goods later are transported by crude river boats, or by mule pack train. The packing of some classes of merchandise should be made proof against vermin. In some parts of the world theft is prevalent. This fact should be kept in mind, not only in the kind and strength of shipping containers which will be as good protection as possible against the professional thief, but also in connection with markings on the outside of containers in order not to reveal the contents thereof. In this respect, advertising is not recommended.

Many kinds of containers are used in export trade, the most common being nailed wooden boxes, wire-bound wooden boxes, panel boxes,

cleated ply-wood boxes, corrugated solid-fiber containers, fiberboard, bags, bales and baling, and wooden and metal barrels or drums. Each has its advantages, according to the kind of goods transported.

Publications on the best safety features in packing have been issued by the United States Department of Commerce and others. The United States Department of Agriculture maintains at the Forest Products Laboratory at Madison, Wisconsin, special machinery for the testing of containers in order to determine their safety factors. Various manufacturers have on the market different styles of casing, strapping, cleating, and other devices designed to give the utmost protection to different types of goods, and providing at the same time for the most economical shipping. The use of air freight and air express in export calls for some alteration in packing methods, requirements concerning which may be obtained from the air lines.

While packing must be sufficiently strong to withstand the rough handling and other hazards it must undergo, it should not be such as to add unnecessarily to freight expense, or to customs duties in those countries which levy duties on the basis of gross weight. In the latter instance, all packing, inner and outer, is dutiable at the same rate as the contents, and should therefore be as light as possible consistent with safe delivery. A different situation arises however in some countries, especially in Latin America, which besides gross weight, use actual weight of goods without any container or packing, or legal weight, in levying import duties, having definitions in their tariff laws of the different weights and indicating the kind of weight which is used in calculating the duty on each item subject to specific duties. These, with variations in other countries in the relation of packing to duty assessment, often make the weight and safety factors in packing a matter to be watched carefully. It is always advisable therefore that the shipper keep himself well informed on the systems in effect in the different countries in which he deals. Much helpful information on the subject of packing and duty assessment may be seen in the countries section of the *Exporters' Encyclopedia* and *Export Shipping Manual.*

Marking Containers and Goods

IN EXPORT trade it is the general practice to mark external shipping containers with a distinctive shipping mark or symbol, instead of with the actual name of the consignee. This mark consists usually of certain letters or initials, sometimes surrounded by lines in certain shapes to set it off clearly from other lettering. Under this appears the name of the port of destination, and sometimes the name of the inland location. Usually the foreign buyer furnishes the exporter with a copy of his shipping mark, which is known to the customs authorities in his port and to his employees.

The principal reason for using a symbol is to prevent easy identification of the buyer or the nature of the goods by possible pilferers, and at the same time to facilitate recognition of containers by longshore-

men and customs employees who frequently are unable to read. Marking is done usually by stencilling with waterproof ink. Some countries have definite requirements on this point. Advertising or other lettering which reveals the character of the contents of shipping containers is not advised. Such information may be an invitation to pilferage, which is common in many parts of the world.

In many cases, foreign countries require that external shipping cases or other containers be marked with their gross weights. Net weights, legal weights, and cubic measurements sometimes are required. Weights generally are indicated in both pounds and kilograms, the latter being necessary in countries which use the metric system. Any caution marks on fragile goods or special stowage instructions should be in the language of the country of destination or transshipment. Shipping containers should bear serial numbers, each one numbered consecutively, although exceptions are made sometimes on quantity shipments of a commodity in containers of the same size or weight. Duplication or skipping of serial numbers should be carefully avoided. Care should be taken to use only essential information, to make it stand out prominently, and to prevent confusion by any unnecessary marking. The individual foreign country requirements should always be consulted. For proper identification, container shipping marks and numbers and total pieces should be shown on bills of lading and other shipping documents.

Many countries require that individual imported articles bear the name of the country of origin, the principal purpose of which is to inform the ultimate purchaser of this fact and also for special rates of duty if from countries having treaty arrangements. This practice protects not only the purchaser or consumer, but it is of advantage to the United States manufacturers who have built up a good reputation for their merchandise. The mark "Made in U. S. A." is accepted generally for this purpose and may be stamped or otherwise affixed on the articles themselves, or where this is not possible, on the immediate wrappings or containers in which they are ultimately sold.

Export Documents

INVOICES, bills of lading, insurance policies or certificates, special certificates, export licenses (where necessary), packing lists, certificates of origin, and drafts are documents which form a very important part of the preparation for an export shipment. Their execution to conform strictly to the prearranged terms of sale, and to meet regulations pertaining to clearance at our ports and entry in foreign countries should be attended to by persons fully acquainted with the technique.

The specific forms of documents often vary from country to country, and it is thus necessary that persons in charge keep themselves constantly posted on the separate requirements. Current regulations of individual countries may be determined readily by reference to the *Exporters' Encyclopedia*. Summaries of shipping documents, required

by each country, are published for the information of its members in the World Trade Bulletin of the Commerce and Industry Association of New York, Inc., and other local chamber of commerce publications.

Export Declaration

The shipper's export declaration is a document needed for the proper clearance of export shipments at domestic ports. On all shipments to foreign countries, or to non-contiguous states and territories of the United States except Hawaii, a declaration is required by the United States Government showing the name and address of the shipper, the name of the carrier, the destination of the goods, marks and numbers, name and address of the consignee, the number and kinds of packages, description of the commodities, classification number, quantity, value at the time and place of shipment, and origin.

Shipper's Export Declarations are also required on shipments by mail valued at $25 or over, sent by business firms in this country to business addresses abroad, or on these shipments regardless of value if an individual export license is necessary. From these export declarations the statistics of our export trade are compiled for the benefit of all American traders. The information contained in the export declaration is held confidential by the customs authorities and the Department of Commerce, and will not be divulged except under written authority of the shipper or his agent. Declaration forms are obtainable at any office of the Collector of Customs, from Field Offices of the U. S. Department of Commerce, or from the Government Printing Office.

Commercial Invoice

The commercial invoice is a statement of the transaction between the seller and his customer. Generally speaking, it is a matter concerning principally the buyer and the seller, but in many instances it is of importance to a third party who has a right to determine the value of a shipment, such as an interested bank or an insurance company. Very frequently, also, the data contained in it must conform to certain regulations of entry in the foreign countries to which the goods are consigned. It is a bill or statement of the goods sold and should contain all items which make up the total cost of the shipment, so as to show clearly the amount the buyer must pay. It is important that all facts appearing in it conform strictly with facts shown in the other documents, especially in the separate consular invoice where that is required. In preparing commercial invoices, the exporter should consult carefully the differing requirements of individual countries concerning them.

Among the many items which the commercial invoice should show are the date, the names and addresses of the buyer and the seller, the port of shipment, the name of the steamer or airline, all terms of the sale, invoice and order number, the price per unit and the total price,

all charges and fees connected with the shipment, the quantities, weights and measurements of the packages, their marks and numbers, and insurance data. Many of the countries with which the exporter will deal use the metric system of weights and measurements, making it necessary that weights in particular be shown in metric units. For customs purposes, there are requirements in many countries that gross and net weights be shown, and in certain instances legal weights, the exact nature of which are defined in the customs statutes of the countries concerned.

Consular Invoice

Many foreign governments require consular invoices and/or certificates of origin for shipments to their ports. The consular invoice is, for the most part, necessary for the clearance of merchandise through customs at the country of destination. It is a document containing a description of the merchandise, its quantity and value, and all other material facts regarding it which usually appear in the commercial invoice and the packing list, made out in the language of the country to which the goods are destined. It must be presented and sworn to by the shipper or his representative at the appropriate foreign consulate in the American port of shipment.

Great care should be exercised in preparation of the consular invoice. Even small errors may subject the foreign importer to heavy fines, which usually revert to the shipper. The goods must be described strictly in accordance with foreign official classification and nomenclature. For this reason, and because the method of preparation of the document varies from country to country, it should be prepared by someone who keeps well posted on the regulations. In most instances, such documents are prepared by the freight forwarder. The seller and his customer should have definite understanding as to who shall bear the cost of fees in connection therewith. Sometimes consular requirements include the certification of commercial invoices and bills of lading.

In some countries American merchandise enjoys favorable customs rates due to treaty arrangements. In order to benefit by these favorable rates, the merchandise coming from the United States must be accompanied by a certificate of origin, either as separate document in addition to, or in place of, the consular invoice, or as a notation on the consular invoice. Such a document is necessary because of complicated treaty arrangements, the different rates of duty which apply to goods coming from individual countries, and the most-favored-nation treatment clause which often benefits the American product.

Ocean Bill of Lading

The ocean bill of lading is a document which serves as a receipt for the goods by the steamship company, a contract for their transportation, and a document conveying the title thereto. It sets forth the

terms of contract between the shipper and the carrier for the conveyance of the goods and for freight charges, and, as a certificate of ownership, it is an essential document for banking and delivery purposes. It is made out on forms obtained from the steamship company, the number used varying with the requirements of the seller, the steamship company, and the consular authorities. Usually two or three are signed by the carrier as originals, the surrender of any one of which at destination, if properly endorsed and if consigned "to order", is sufficient to obtain the goods. In some countries certain special formalities concerning bills of lading must be complied with. These should be checked carefully by the seller in each case to make sure that the document conforms strictly to all regulations.

As it concerns the method of consignment of the goods, bills of lading may be either "straight" or "to order," each having varying forms. A "straight" bill of lading is a non-negotiable document, by which the transportation company acknowledges receipt of the goods and contracts to move them. It is used where merchandise is consigned directly to the customer. It is possible usually for the customer to take delivery without presenting the bill of lading, except where necessary for identification, or for satisfying someone that payment or acknowledgment of the indebtedness has been made. Title to goods which go forward on "to-order" bills of lading remains with the shipper until he transfers it to the bearer of the bill of lading by endorsing it on the back in blank, or to a special party by endorsing it specifically to that party. In cases of this sort, in most countries, the merchandise is not released by the steamship company unless one original copy of the negotiable bill of lading is delivered to it. The buyer, in order to obtain possession of the bill of lading, usually is required to pay or accept the draft to which it is attached. Negotiable copies of the bill of lading may be turned over to a bank or other agent, along with the additional documents and instructions as to conditions under which shipping documents are to be released to the buyer. Thus, the shipper retains title to the goods until all conditions of the contract have been met. However, four Latin American countries prohibit the use of "to order" bills of lading, and in one or two others they are not used as they accord little or no production.

Distinction should be made also between "on board" bills of lading and "received for shipment" bills of lading. The former are issued only after the merchandise has been loaded on the vessel. The latter are used for a named steamer, and/or following steamer, in which space has been reserved, and when the goods are in possession of the steamship company. Usually, "on board" bills of lading are required in transactions where payment by letter of credit is called for.

The bill of lading form supplied by the ocean carrier gives all conditions under which it accepts the goods, and may vary somewhat according to the company. As a general rule, steamship companies exempt themselves from responsibility or damage to the shipment by fire, water, breakage, or other causes, and also from loss, unless these

arise from negligence or failure to assure the seaworthiness of the vessel. Special stowage requirements must be noted on bill of lading, as well as the export control non-diversion clause. Uniform standards regarding the responsibilities, liabilities, rights, and immunities of ocean carriers under bills of lading contracts were formulated by international convention at the Hague in 1921 and adopted in final form at Brussels in 1925. Endorsement of these standards, known as the Hague Rules, was made by the United States, with certain reservations, in the Carriage of Goods by Sea Act of July 16, 1936.

Insurance Policy or Certificate

In the absence of instructions to the contrary from the foreign buyer, it is customary for the shipper in the United States to arrange for insuring the export shipment usually from the warehouse of the shipper, during the usual course of transportation, to the warehouse of the consignee. Some foreign importers maintain blanket insurance policies of their own and insure the cargo themselves. An insurance special policy or certificate is one of the necessary documents involved in every overseas shipment of goods. The amount of protection arranged for depends, of course, on the wishes of the parties concerned, the cost thereof increasing according to the degree of protection. Since shipments are insured usually for the benefit of the consignee, and since he pays the premium, (it being a charge in the invoice) he should be careful to stipulate the kind and degree of protection he requires.

The coverage which may be provided by a marine insurance policy varies to considerable degree from the limited coverage of marine perils such as stranding, sinking, fire, and collision, to broader named perils which could include such risks as damage by sea water, contact with other cargo, theft, pilferage, and non-delivery, and finally to the broadest coverage—"All risks of physical loss or damage from any external cause." However, the marine policy does not cover loss caused by inherent vice which is a change due to an inherent characteristic of the goods, delay, deterioration, or loss of market. The insurance of overseas shipments is a highly technical matter and one on which the inexperienced exporting concern should seek the advice of well-established and reliable insurance companies or insurance brokers or agents.

Most cargo insurance written today for active exporters or importers is under what is known as the open or floating policy, which is an open contract between the insurance company and the exporter or importer, in which the insurance company undertakes automatically to protect, in accordance with the policy conditions, all shipments. Each time a shipment is made, an insurance special policy or certificate covering the particular risk is made out by the shipper, according to the terms of the open policy, and the insurer will usually grant the shipper authorization to countersign this shipping document.

Other Documents

Generally the documents called for on all ocean shipments are the exporter's declaration, commercial invoice, bill of lading, marine insurance policy or certificate, export license (if required) and draft if payment is to be made in that way. Drafts as documents are discussed in the next chapter. A great many countries, including most Latin American countries, require a consular invoice bearing a consular visa. Others require a special certificate of origin, also visaed, to be presented in place of the consular invoice or in addition to it, and in some cases a signed and sworn commercial invoice. The bill of lading may or may not call for consular visa, depending on the country concerned. For some products sanitary certificates are necessary. These may be certificates of purity or absence of disease or pest, to be visaed by a consul of the importing country after inspection by an official inspector. Plants, seeds, live animals, and certain food products, such as lard, meat, and meat products, are articles on which these certificates are often required.

The matter of proper form in documentation often is a cause of much perplexity to the newcomer in foreign trade, and is one on which he will need expert advice of competent shipping authorities. It is not possible here to lay down any plan of procedure regarding documentation for shipments in general, nor the detailed nature of the documents themselves. In practice, each case will have its own peculiarities which are determined very largely by the requirements and formalities of individual countries, the terms of the sale agreed upon between the seller and the buyer, and the character of the goods.

Regardless of the number and character of documents required for foreign entry and for taking possession by the consignee, it is extremely important that all necessary documents be on hand at destination at or before the arrival of the shipment. Absence of documents, or delay in their receipt, bring fines and penalties and much inconvenience. Documents may go forward on the ship carrying the goods, on a faster ship, or by air mail. Very frequently a dual method is employed, whereby all originals are sent by air mail and copies by regular steamer mail.

5. *FINANCING EXPORTS*

ONE FUNDAMENTAL in building a profitable export business is the formulation of a sound financial and credit policy. Obviously, the American supplier in export desires to obtain payment for his documents as promptly as possible, and at the same time to safeguard himself against loss by retaining security for payment. In this connection, he is concerned primarily with the arrangement of proper credit with the advice of his banker, the manner of handling letters of credit, drafts, and other instruments of financing, and with the extension of credit to his customers.

Methods of Financing

IN AMERICAN export trade, a very large part of sales to foreign buyers is financed by one of two general methods: an export letter of credit opened by the buyer in a foreign country in favor of the seller in this country or a direct draft drawn by the seller in the United States on the buyer abroad. Other forms less generally used are sales against cash deposit in advance of shipment, and sales on open account.

The particular method selected by the exporting manufacturer depends on many circumstances in each business transaction. The terms of sale, which are fully arranged in advance between the seller and the buyer, are influenced by various factors, among which are the type of merchandise, the amount, the market custom, the country in which the buyer is located, his credit standing, whether there are exchange restrictions or controls in the country of destination, the seller's financial condition, and the terms granted buyers by competitors.

The Export Letter of Credit

One of the principal advantages of the letter of credit is the protection which it offers to the American supplier. Particularly when issued in irrevocable form, by a U. S. A. bank or by foreign bank and confirmed by a U. S. A. bank, it eliminates the credit risk, the risk involved in obtaining dollar exchange, and in general assures dollars to the seller at the time of presentation of the shipping documents to the bank which advised the credit, provided of course he has met all requirements of the credit.

Briefly, the steps involved in financing by this means are as follows: Upon completion of the sales contract between the buyer and the seller, the buyer abroad arranges with his local bank for the issuance of a letter of credit. He explains to his banker the nature of the transaction, its value, the kind of merchandise to be purchased, the documents required, the expiration date, and other provisions of the con-

tract he has with the seller in this country. If all is satisfactory, the importer's bank writes or cables its correspondent bank in the United States to notify the exporter that a letter of credit has been established, stating the terms and conditions thereof.

Export letters of credit, as they concern the method through which the seller finally obtains the proceeds from his transaction, fall into four general classes. The American bank may itself issue an irrevocable letter of credit and take the full responsibility of honoring the seller's drafts for account of its foreign correspondent. Or, an irrevocable letter of credit issued by a foreign bank may be confirmed by the American bank, in which case the effect is much the same as in the foregoing method. On the other hand, an irrevocable letter of credit may be issued by a foreign bank, but without responsibility or engagement of the American bank. In this case the American bank simply transmits advice of its issuance to the seller. This form may provide for drafts to be drawn on the buyer, on the foreign bank, or on the American bank. However, the American bank in this case is under no obligation to honor drafts, as it would be under a foreign irrevocable letter of credit which it has confirmed.

Letters of credit of the three classes mentioned represent the irrevocable undertaking of banks that drafts drawn and negotiated or presented in accordance with the terms of the credit will be duly honored upon presentation. Subsequent to their establishment no changes in terms can be made without agreement between all parties to the case, including the seller. The fourth class, or the revocable letter of credit, is less frequently used, and serves only as a means of arranging payment. The advising bank on its own volition or acting on instructions from the issuing bank may revoke or amend it at any time without notice to and without the consent of the beneficiary. It gives the seller no protection prior to payment, and is not a legally binding undertaking between the bank and the seller.

Under an export letter of credit the usual documents required are the commercial invoice, the consular invoice in many cases, bills of lading, and the insurance policy or certificate. Additional documents also may be specified, such as a certificate of origin, weight list, certain types of certificate of analysis, packing list, etc. It is very important that the description of the merchandise as shown by the commercial invoice correspond exactly with that written into the letter of credit. If the description in the remaining documents is in general terms, this is usually acceptable depending, of course, on the language of the credits. Great care should be exercised throughout the preparation of all documents in order to prevent delay and expense in settlement. Small errors or omissions occur very frequently and are responsible for great inconvenience.

When an export letter of credit is received, the terms and conditions thereof should be studied carefully to make sure that they conform with the contract and instructions and that they can be complied with readily. If amendments are necessary, the seller, as a rule, should com-

municate promptly and directly with the buyer to have these provided for through his bank and in turn through the advising bank. The seller should communicate with the advising bank if the terms and conditions of the credit require clarification. If it seems advisable, he may ask the advising bank to cable the issuing bank for amendments if this is necessary.

To obviate difficulties due to discrepancies, and to insure prompt shipment and payment, many sellers make it a practice to give clear instructions to their foreign buyers in advance as to general conditions with which they and American banks can comply readily, often advising that letters of credit be written as broadly and as simply as possible, that unnecessary details or restrictions be avoided, and that procedures on specific points be followed carefully. The nature of such instructions varies, of course, with the type of commodity concerned and the peculiarities of individual cases. Sellers should refrain from giving guarantees for discrepancies and write or cable for an amendment if the matter cannot be rectified at this end. A guarantee for even a minor discrepancy leaves the seller without the protection he is assured under the letter of credit, because the buyer may refuse to accept the merchandise.

Usually, letters of credit issued or advised by banks in the United States contain a stipulation to the effect that unless otherwise expressly stated, the credit is subject to the *Uniform Customs and Practice for Commercial Documentary Credits* adopted by the International Chamber of Commerce. It is important that sellers be familiar with the terms and conditions of this document, as reference to them in letter of credit determines the interpretations of the terms used. It is important also that sellers be familiar with the *Revised American Foreign Trade Definitions—1941.*

Sales Against Authority to Purchase

The authority to purchase is similar in many respects to the commercial letter of credit. It is an authority extended by a foreign bank to an American bank to purchase the documentary draft of the seller. It may be in revocable or irrevocable form. When issued in revocable form, it constitutes no engagement on the part of the foreign or American bank. It merely indicates belief that the draft will be cared for by the buyer. When irrevocable, it is similar to an irrevocable letter of credit, carrying the engagement of the foreign bank to purchase the seller's draft. However, the undertaking does not run to the seller, but to the American bank. It is an undertaking that the correspondent bank will be reimbursed for any funds it may advance thereunder.

This form originated in the Far East and has been used in other countries. The merchant abroad arranges with his local bank for an authority to purchase. This bank then notifies its American correspondent that it is authorized to purchase the draft of the American

supplier under stipulated conditions. The seller draws the draft on the importer abroad, who in turn obligates himself to accept or pay the draft and to reimburse his bank for advances made to the seller.

Drafts drawn by the seller under irrevocable authorities to purchase are, as a rule, negotiated without recourse to the shipper if the authorities to purchase expressly provide for negotiations without recourse. However, if the authority to purchase does not permit the drawing of drafts without recourse, the drawer remains liable until the draft is finally paid.

The value of a revocable authority to purchase depends upon the integrity and credit standing of the buyer, since the buyer may cancel the authority at any time and decline to pay the draft when presented. The value of an irrevocable authority to purchase depends upon the standing of the foreign bank, as there is no obligation on the part of the American bank to purchase the seller's draft. The authority to purchase, confirmed by an American bank, is a direct obligation of the American bank to purchase the draft if the terms of the credit are complied with.

Sales Against Dollar Drafts

A very popular method of financing export shipments is the United States dollar sight or time draft drawn by the seller on the buyer in a foreign country. The tenor of the draft is of course in accordance with the terms of sale arranged between the buyer and seller. Some sellers confine their sales to a sight draft basis, although drafts drawn for payment 30, 60, or 90 days, or for longer period after sight or date, are frequently used.

When dollar drafts are presented to a bank for collection, they usually are accompanied by all shipping documents, consisting of a full set of bills of lading in negotiable form, endorsed by the shipper in blank, together with the insurance certificate, commercial invoice, and any other documents required in the country of destination. Sometimes suppliers forward the shipping documents directly to the importer abroad, or to an agent, and send a draft unaccompanied by documents to the bank for collection. Generally, the procedure is for the seller's bank to forward all papers to its foreign correspondent with the instructions furnished by the seller. If the draft is drawn at sight, the foreign correspondent will be instructed to present the draft for payment. If drawn for payment for any period after sight, he will present it for acceptance. Documents are delivered either upon acceptance or upon payment, according to the circumstances of the case.

When time drafts are accepted abroad, the bank correspondent in the foreign country notifies the seller's bank in this country, which in turn promptly advises the seller. When actual payment is made by the importer abroad, either of a sight or time draft, the proceeds are remitted by the foreign correspondent to the seller's bank in the United States. The latter then remits to the seller when the funds are available. Under certain conditions the seller may make arrangements with his bank to

handle the business on a loan basis. Under normal conditions loan collections fall into four general classifications, namely, the discount basis, liquidation or cash advance basis, acceptance basis, and note basis.

Cash in Advance

Sometimes when credit risks are doubtful, or when disturbed economic or political conditions warrant extreme caution, the seller will require payment in whole or in part, in cash, before the shipment is made. When conditions are normal, however, the amount of business done on this basis is relatively negligible. From the viewpoint of the seller, such an arrangement of course has distinct advantages, in that little or no risk is involved, but the foreign buyer is at a great disadvantage, since he must bear the entire burden of financing. If the buyer is a well-established firm of good reputation, there seldom is any justification for demanding cash in advance, unless perhaps in the instance of a substantial initial payment on goods made to specification, such as special machinery, in the production of which the manufacturer may have to undergo unusual expense.

Sales on Open Account

Sales abroad by the open account method are little different from open-account sales in the domestic field. In many instances, in normal times, it works very well in cases where sellers deal with well-known buyers with whom they have had good relations of long standing in nearby or old-established markets. It is employed also where sales are made to a foreign branch or subsidiary of the supplier, and where goods are shipped on consignment, payment for which is made after the goods have been sold. The chief advantage of this method is its simplicity, but the main objection is the absence of any tangible obligation, which may result in difficulties of collection in case of default by the importer. Delay may be experienced also if dollar exchange shortages exist in the countries of destination, because of inability of buyers to obtain the necessary dollar exchange.

Sales on Consignment

Except in the case of sales to foreign branches or subsidiaries, transactions for sale on a consignment basis are somewhat limited. The method is frequently used, however, in sales to foreign representatives, or import houses, but as in the case of sales on open account, no tangible obligation is created. Shipments should be made on this basis only on thorough understanding of the risks involved. In some countries where exchange restrictions exist, the importer may find difficulty in converting his own currency into dollars after the goods have been sold.

Credit or Finance Companies

In relatively recent years a few private credit or finance companies have been organized which offer specialized facilities for financing export trade, undertaking risks which are outside the ordinary role of commercial banks. While commercial banks in international trade base their credit accommodation chiefly on the responsibility of the seller for whose account and risk the business is handled, export credit companies usually underwrite the financial risk connected with an advance of funds based primarily on the responsibility of the buyer. After satisfying themselves of the responsibility of the overseas buyer and that the order has been properly executed, such companies purchase the receivables created by the exporting concern, advancing funds often without recourse to the drawer. In short, they function as the exporting manufacturer's credit department and discounting bank, thus enabling him to realize on his receivables as soon as created by the shipment of goods. Although the nature of the risk calls for remuneration somewhat in excess of commercial bank interest rates, there are exporting concerns which find the services of such companies of particular advantage in their foreign business.

Credit

THE AMERICAN seller's policy with reference to the extension of credit to his foreign customers deserves very careful consideration. What his policy will be depends upon the particular circumstances of the individual business. It will be determined not alone by the desires or needs of the customer, but also by the financial status of the seller, the margin of profit realized in his operations, the competition he encounters, dollar exchange availability in the buyer's country and other factors. There is reason for granting terms as consistent as possible with safety, but to go beyond this point, for the sake of building business, obviously is venturing on very unstable ground. In general, his policy must be elastic enough to meet the reasonable needs or requirements of his foreign customers in all markets in which he proposes to deal, and liberal enough to meet the terms offered by his competitors, both at home and abroad.

Reasons for Credit Extension

The distance of markets and other factors make the granting of liberal terms in foreign trade, in many cases, more imperative than in domestic transactions. Time consumed in transportation, both on the seas and to inland points, together with varying rates of turnover of the goods after their receipt, are important elements in the interval over which they must be financed.

The insufficiency or high cost of capital in some countries may induce the foreign buyer to ask for liberal terms from the seller if they are cheaper than the cost of financing by local capital. In addition to

the cost of the shipment, the importer often has to stand immediate payment of the import duties of his own country, which in many cases represent a high percentage of the original value of the shipment itself. Adequate credit accommodation is one of the major considerations which guides the foreign importer in making his selection of supply sources, and American suppliers, if they are to meet successfully the competition of exporters of other countries, must be prepared to grant appropriate terms. In general, American exporting manufacturers have been very liberal in this respect.

Sources of Credit Information

In his decisions on the question of granting credit, the seller should take advantage of every possible source of information available to him regarding the reliability of prospective customers. His investigation should not be confined to the ordinary financial statement, whether furnished by the buyer himself or whether made by outside agencies, but should include a close examination of the buyer's integrity or his general reputation for honesty in business, as well as his capacity for operating efficiently, aggressively, and profitably. Of great value also is a knowledge of the political, economic, and financial conditions of the country itself, and thus the environment under which the customer must conduct his business affairs. Instability in these conditions may have as much bearing on the terms extended as the character of the business itself.

Financial data supplied by the foreign buyer himself may have decided limits when considered alone, but in many instances can contribute much to the general pattern as developed by the use of other sources. Obviously, it can be highly colored in the buyer's favor, or it may be a sketchy collection of data which will mean little or nothing. Sometimes the buyer will consider a request for such a report an insult. The privilege of a supplier to demand financial data from customers is not so widely recognized in many foreign countries as in the United States. In some cases the buyer's own bank can be helpful, but here again the information can be quite inconclusive.

One way in which the exporting manufacturer may obtain reliable information from abroad is through his salesmen or other representatives in the field. If he maintains foreign branches, a great deal of the responsibility for securing credit information may be delegated to the local branch manager. Such persons can obtain a generally good outline of the buyer's financial position through local inquiry, but they are also in an excellent position to observe the customer's capability, aggressiveness, and past record in business conduct. As a rule, they are capable of understanding the credit problems faced by the home office and are able to judge customers from the point of view of the credit executive.

In this country the seller may find extensive credit files on many of his actual or prospective customers in the offices of the bank through which he conducts his foreign business. These credit files,

which it is in the interest of their foreign departments to maintain, often are sources of comprehensive data and contain historical material of great value. Some of the domestic mercantile credit agencies, such as Dun and Bradstreet, are in a position to supply credit reports on business concerns nearly everywhere in the world, following closely the pattern used in reports on business concerns at home. Their information is obtained through their own foreign branches or through correspondents located in the leading world commercial centers. Reports include financial data and whatever historical or general information is available.

For the benefit of their advertisers, various magazines devoted to export selling in many lines, have built up valuable files on foreign buyers, gathered through correspondents in foreign countries, overseas buyers, and the usual credit reporting agencies. American concerns advertising in such magazines may find these files of much value to them.

The type of information which is perhaps most useful to the exporter in gauging his credit risks is the actual ledger experiences of the thousands of United States suppliers who are dealing regularly with foreign buyers throughout the world. These embrace data which they themselves have secured through private investigation by their travelers and agents abroad, combined with information from all the usual sources. Files of this kind are maintained by the Foreign Credit Interchange Bureau of the National Association of Credit Management, for the use of their membership, which includes leading manufacturers and exporters throughout the United States. The experiences of all members are pooled in a central file and are available for use of any member contributing to the pool. The Bureau is member-owned and member-controlled. Emphasis is laid upon ledger experience in actual business transactions rather than on historical or financial information. Besides issuing foreign credit interchange reports, the Bureau issues weekly bulletins to members, operates a moral-suasion service, and sponsors monthly round-table conferences on foreign credit, collection, and exchange problems, minutes of which are available to interested parties.

Many American suppliers ask overseas buyers to send in the names of at least five American manufacturers, from whom they are currently receiving shipments, and to state on what terms those suppliers are shipping them. If, after checking with those American suppliers, it develops that the new overseas buyer is getting the terms claimed, the seller grants, if consistent, with their export terms, the same terms that others are granting.

Collections

THE MOST obvious ways to avoid difficulties in the collection of accounts are to make sure first that the buyer is reliable, that there is a complete mutual understanding as to all contract terms, that the goods are in strict accordance with descriptions or samples, and that the

buyer's instructions as to documents and other details are faithfully carried out. Difficulties in the collection of foreign accounts are due very often to mistakes and improper procedure by the seller. One of the most common reasons leading foreign buyers to refuse payment on drafts is delayed shipment. Another is neglect in carrying out packing and marking instructions. In some cases such instructions may seem unwarranted, but the seller must assume there is good reason for them.

The reason on the other hand, may be due to no fault of the supplier whatever. The customer may refuse the goods because their market price has fallen in the interval between shipment and receipt. He may have become financially embarrassed, tariff rates may have increased, or exchange rates may have fluctuated in a manner unfavorable to him. There are many factors or combinations of factors which may prompt his refusal, reasonable or unreasonable.

Obviously, when the buyer refuses payment, the first thing the seller will do is to make immediate investigation of the real causes. This may be done by his sales representative abroad, by his bank, or directly by correspondence. If the seller is at fault, or if there is reason in the buyer's complaint, he will, for the sake of goodwill and further business, make prompt and appropriate adjustment. If the buyer is at fault due to financial embarrassment, there may be reason to make some extension in the credit time. The circumstances of each case will dictate the proper procedure to follow.

Moral Suasion

If the buyer is clearly at fault and if there is no chance of adjusting the matter, the seller usually follows several lines of action. He may employ moral suasion by letters or other means. This method as used by the Foreign Credit Interchange Bureau has been very effective in the collection of delinquent accounts for its members and subscribers. In most foreign countries well-established collection agencies exist, the names of which will be supplied by the Bureau of International Business Operations of the United States Department of Commerce. The Bureau is often helpful in the adjustment of foreign trade disputes but performs no actual collection service. A report should be made to the Bureau in case fraud or flagrant abuse of credit is apparent, so that record may be made of it in their files. Intervention by government officials of either the Department of State or Commerce is limited to cases of general interest or cases in which unusual legal or credit difficulties are present. They are not permitted to act as arbitrators. The foreign departments of banks and foreign trade bureaus of local chambers of commerce often are in a position to give advice as to collection procedures.

Arbitration

Where satisfactory settlement cannot be accomplished by these means, the seller may be able to employ arbitration. In most of the

principal foreign markets machinery for this purpose is established. Sometimes American chambers of commerce abroad specialize in this work. Some countries have commercial arbitration laws, and others provide by law the means of settling disputes voluntarily. On this subject the seller may consult the American Arbitration Association, the Inter-American Commercial Arbitration Commission, the United States Council of the International Chamber of Commerce, or the Canadian-American Commercial Arbitration Commission, as to procedure. The Bureau of International Business Operations of the Department of Commerce is also prepared to furnish information and advice as to the proper action to take. Standard arbitration clauses in foreign trade contracts are being used increasingly with a view to controlling and settling commercial disputes effectively and quickly at minimum cost. International panels of arbitrators established in conjunction with the organizations mentioned above are available for the arbitration of disputes under established rules of procedure.

Legal Action

The seller will wish to avoid legal action, of course, wherever possible, but if all other measures fail this will be his last resort. He may find it advisable to take a substantial loss rather than to resort to this pressure, since heavy expense is likely to result. If legal action must be taken, great care should be exercised in preparation therefor. Advice on this matter may be had from the Bureau of International Business Operations of the Department of Commerce. In recent years, a number of United States law firms have greatly extended their facilities to serve American legal business interests in foreign lands, or by adding foreign trained legal specialists to their staffs in this country.

Role of the Export-Import Bank

THE FUNCTION of the Export-Import Bank of Washington in financing exports is intended to supplement not compete with private capital. Loans are generally for specific purposes offering reasonable assurance of repayment.

The Bank's activities, therefore, are confined to dealing with risks which are either beyond the scope of private capital, or which private capital is not prepared to assume without government assistance. The Bank extends export credits only to finance purchases of material and equipment produced or manufactured in the United States. Hence, the Bank promotes foreign trade of the United States directly by financing specific export transactions. It promotes foreign trade further by financing exports in connection with productive development abroad.

United States exporters may apply for credits by writing directly to the Export-Import Bank of Washington, or may present their applications through their own commercial banks, which, in most instances, are able to judge whether or not assistance of the Export-Import Bank is appropriate.

On May 23, 1960 the Export-Import Bank started a new program for the writing of political risk guaranties on short term transactions up to 180 days. This insurance is available through any commercial bank or insurance company which is acting as an agent for the Export-Import Bank.

Political risk guaranties are issued on medium-term transactions from 180 days to 5 years on a special risk basis.

The political risks are (1) Inconvertibility or non-transferability of foreign currencies, (2) imposition of law or regulation beyond the control of the exporter and importer which prevents delivery of goods, (3) cancellation of import license, (4) war hostilities, rebellion, and civil commotion, (5) expropriation of exported items by foreign authorities.

In the first of these five events the Export-Import Bank will pay the insured exporter 90 percent of the amount of local currency deposited, and in case any of the last four hazards occur, the Bank will pay him 90 percent of the losses suffered.

To obtain this protection on short-term transactions the exporter must cover all his eligible shipments to all countries included in the program. However, shipments to Canada need not be included and the exporter also has the option of including or excluding shipments under letters of credit.

There are several possibilities on medium-term transactions of from 180 days to 5 years. (1) The exporter may obtain political risk guaranties from the Export-Import Bank on a case-by-case basis; (2) he may obtain comprehensive guaranties covering both export credit and political risks on a case-by-case basis; (3) he may obtain non-recourse financing from the Export-Import Bank whereby the Bank purchases the obligations of the buyer for 85 percent of the financed portion of the risk; (4) he may obtain non-recourse financing through cooperative arrangements on the part of his own commercial bank with the Export-Import Bank. For this reason it is advisable for exporters extending medium-term credits to approach their commercial bank in the first instance.

6. *EXPORT ADVERTISING*

IF THE MANUFACTURER'S success in domestic sales has been dependent on extensive advertising, he will no doubt find it even more useful and profitable in promoting trade overseas. The form which it will take will depend on the particular method of distribution his products require, whether they are capital or consumer goods, and many factors peculiar to the countries or areas to be cultivated. His advertising may be for the purpose of building up consumer demand, to secure direct orders, to obtain dealers or other distributors, or to prepare the way for his salesmen. In any case, he may find that advertising abroad will differ in many of its details from the techniques used at home. It is in reality a specialized field, and before launching a campaign the export manager should rely on the advice of advertising and sales promotion specialists.

Adaptability of Advertising

AS A RULE, the need for revision in method is less essential in countries which enjoy higher standards of education, aside from translation and some special adaptations. In areas of low educational attainment, or in which illiteracy is common, greater care must be taken. In such areas the printed word will be much less effective, and greater reliance must therefore be placed on graphic methods of presentation. Illustrations and pictures, in that event, will carry more weight in demonstrating the use of the product and its virtues. In some markets color may be a very important adjunct, particularly in package design. According to locality, some very definite colors have a much greater appeal than others. Very often, easy identification by distinctive trade-marks, both on packages and other advertising is found to be very effective. It should be remembered that advertising in many countries is taken much more literally than in the United States. It is often necessary, therefore, to guard against phraseology which may turn out to be misleading.

In the foreign advertising field, copy is usually divided into two broad classes, as at home, known as trade media and consumer media. The former seeks to attract middlemen and induce them to take on the line. The latter is designed to win the good-will of the ultimate consumer and impel him to buy the product from local dealers. Sometimes, of course, the two methods may be combined to good purpose. At this point some consideration is given to the various media which may be used, but with no purpose of evaluating their adaptability or value without the advice of competent advertising authorities.

Export Business Magazines

In the United States are published numerous export business magazines or journals designed to reach foreign markets, printed in English and one or more foreign languages. Some are general in coverage, reaching merchants, representatives, and consumers abroad in many different fields. Some of these carry special departments devoted to such products as, for instance, textiles, electrical equipment, hardware, or automotive equipment. Other magazines specialize in certain definite industrial and commercial fields, such as for example, automobiles, drugs and pharmaceuticals, machinery, and engineering. There are also non-technical magazines, especially the international editions of several popular American magazines, which have wide circulation in many foreign countries and are read in the home. They carry matter particularly concerning branded consumer goods, and are regarded by many as excellent consumer advertising media.

Foreign Magazines and Newspapers

Where the object is to cultivate consumer demand particularly, magazines published in many foreign countries may be of great advantage. Although few countries have magazines of national circulation comparing favorably with those published in the United States, they are steadily improving in the more advanced ones. Among these, news magazines, motion picture magazines, and fiction magazines are particularly adapted to reaching the consumer in the home.

Well adapted also to reaching consumers is advertising in foreign daily newspapers, both those of national and local circulation. In many countries these are generally more important for the purpose than magazines.

Trade Directories

Another opportunity open to the seller in bringing his merchandise to the attention of distributors in foreign countries, and even to consumers in some lines, is found in trade directories published in the United States and other countries. Usually these directories list the names and addresses of manufacturers and other producers, with descriptions of the products handled by each, in the countries or territories which they cover. Classifications are made by product, as well as by name of the supplier, in many cases. Special advertising may be done often in these books, its worth, of course, depending on the cost, make-up, and the limits of circulation.

Direct-Mail Advertising

Direct-mail advertising embraces many forms of material sent directly through the mails to prospective or established agents or customers. In this group the most important material consists of catalogues, house periodicals, circulars, and letters. Usually such material

is of a follow-up nature after the more widespread coverage has been accomplished in other ways, although in some instances, direct-mail advertising has been utilized to advantage in introducing products. Attractive, well designed illustrative catalogues or sales leaflets constitute very effective media for direct-mail use. They should be fully adapted, however, to the peculiarities of the markets they are to enter, which in many instances will involve expert advice. Graphic illustrations are often a necessity and should tell a large part of the story. Descriptions should be complete and anticipate all possible questions which may come to the mind of the reader.

House periodicals or company magazines are used sometimes to good advantage. Here, of course, the prime object is the establishment of goodwill. They are more of general interest to the reader, furnishing information about the company itself, how the products are made, and their various uses. They are of particular value when sent to dealers. Often they contain suggestions as to dealer advertising, display, and selling methods.

Radio and Television

RADIO AND TELEVISION as mediums of advertising abroad have been growing rapidly in those countries where commercial transmission is permitted, especially in Latin America. This is particularly important in that it can bring the message more effectively to illiterate populations. Radio advertising has been carried on very successfully in the case of many products, both by direct short-wave broadcasts, and broadcasts from local stations abroad. There has been steady growth in advertising through records or transcriptions over foreign local stations. Although it may be considered a class, rather than a mass, medium, it is true that in many countries where illiteracy is prevalent and ownership of receiving sets is limited, broadcasting is heard rather generally in public places. It should be remembered, however, that in some countries, particularly in Europe, radio and television transmission are government monopolies and exclude ordinary commercial advertisements, although in some of them privately-operated stations do exist. Some coverage within these areas may be had, nevertheless, through stations in adjacent countries which permit commercial broadcasting.

The Motion Picture

THE MOTION PICTURE is important as a medium for overseas advertising for many products. Commercial films are used to a greater extent in foreign countries than in the United States. Traveling salesmen can use this form to great advantage for demonstration and sales purposes. In many foreign countries the commercial sound film is quite effective because of the high percentage of illiteracy. Advertising of this kind may require special productions to suit individual circumstances, but in others institutional advertising may well be adapted for use in foreign countries by changing sound tracks from one language to

another. Moving picture theatre slides have been used very successfully also in advertising trade-marked consumer goods.

Other Forms

BILLBOARDS, metal signs, posters, electric signs, cardboard display material, and other forms of local advertising are of course in general use, varying according to the product and the market. The effectiveness of these forms has been demonstrated particularly in many Latin American countries. In general, they are most advantageous if the display emphasizes the trade name and a picture of the product. For advertising consumer products, attractive window displays, and interior counter displays and floor cases, are of course very effective where they can be arranged satisfactorily.

Advertising Policy

THE INTENTION here has been simply to call attention to the various forms a company has of bringing its products to the attention of the foreign buyer or distributor. These are quite generally the same as used in our own country, with special adaptations for foreign use. It is these adaptations, however, which make the problem of securing the most effective and the most economical results a highly specialized function in which the advice and guidance of experienced American advertising firms is of utmost importance. This is true not only from the point of view of selecting the most valuable media, but because of the many technicalities arising from language differences and peculiarities of local appeal.

Expert advice as to the best methods to pursue in the placing of advertising and in the preparation of copy is available from many advertising agencies in the United States with long experience in the foreign field. Many companies have found it of great advantage to place all their advertising work in the hands of such agencies, which are equipped to prepare layouts, copy, translations, and attend to all the detail involved. Because of their widespread operations, they are able to advise on the best selling methods, to make sales surveys, locate agents or other distributors, furnish mailing lists, and advise generally on many points involved in a foreign sales program. Either through their own branches in foreign countries, or through associated foreign advertising agencies, they have direct contacts in all principal foreign markets. As compensation for their services, such agencies generally receive an agreed percentage on the gross amount they expend for the account of their clients for space or other advertising material.

One of the important problems which the supplier will need to settle in establishing his advertising policy is the extent to which foreign local representatives and distributors cooperate in the program. In other words, whether the advertising shall be completely centralized in the home office, or whether the foreign distributor shall be given a certain amount of local autonomy. In the plan of centralized control, the com-

pany export department directs the complete operation of planning, preparing, and use of all advertising material. This practice seems to be favored by most companies, large and small. The company's home export department in cooperation with advertising agencies may thereby assure high quality, uniformity, and savings in time and expense.

On the other hand, since success in sales promotion depends to a large degree on wholehearted cooperation of local representatives and distributors, the sharing of a certain amount of responsibility in the advertising program may be very desirable in some instances. The manner in which this is done, and the degree to which it is shared, will vary according to the needs of each individual case. However, whether handled solely by the supplier or cooperatively, the program should be well controlled by the supplier, both as to expenditure of funds and the types of media used.

Duty-Free Admission of Advertising Material

THE INTERNATIONAL CONVENTION to Facilitate the Importation of Commercial Samples and Advertising Material was drawn up by the contracting parties to the General Agreement on Tariffs and Trade in November 1952. The United States ratified the convention effective October 17, 1957. Some thirty-five major trading countries are members of the convention, which provides that each contracting party shall exempt from import duties samples of goods of all kinds imported into its territory, provided such samples are of negligible value and are only to be used for soliciting orders for goods of the kind represented by the samples with a view to their importation. Catalogues, price lists, and trade notices relating to goods and services, are duty free if each consignment (a) consists of not more than one document, or (b) if it consists of more than one document, does not include more than one copy of any one document, or (c) irrespective of the number of documents or copies, does not exceed one kilo in gross weight. The convention provides for temporary duty-free admission of advertising films under certain circumstances.

7. FOREIGN TRADE RESTRICTIONS

JUST AS the United States has restrictive laws and regulations pertaining to the entry of foreign merchandise within its borders, so does every other country of any commercial importance, although those of many foreign countries are more onerous than our own. All of them have direct bearing on market possibilities in given areas. Such regulations constitute each government's method of controlling its foreign trade, and hence many aspects of its internal economy. They are fixed policies within which trading may be done with each country. Among the more important of them are tariffs, import quotas, import licensing systems, foreign exchange restrictions and controls, quarantine regulations, and patent and trade-mark laws and regulations.

Foreign Tariffs

THE OLDEST and most universal of trade restrictions is the import duty or tariff. The general purpose of import duties is to produce government revenue or to protect home industry against competition from abroad. The severity of duties varies, of course, from country to country and is determined by the specific problems which each country faces in the preservation or regulation of its economy. Duties are imposed generally on a specific or *ad valorem* basis, or a combination of both. Specific duties are levied at so much per unit of weight, number, or other measurement, and *ad valorem* duties on the basis of a stated percentage of the value of the goods. Specific duties when assessed by weight will vary according to whether the dutiable weight is gross, net, or legal weight. Different rates may apply to merchandise and to its packing. The basis of *ad valorem* duties may be the price paid, the appraised value, or some other established value.

Many countries have in force preferential duty systems which favor trade with specific countries such as within the British Commonwealth. Similarly, United States goods enjoy preferential treatment in the Philippines and United States possessions. Usually this arrangement provides simply for a lower level of duty on goods imported from the country to which the preference is extended. Sometimes the system is in effect between groups of countries having special relationships of an economic, geographical, or other character. Some countries, under their respective anti-dumping laws, assess special anti-dumping duties, usually by imposing additional *ad valorem* import charges on imports entering at artificially low prices. While standards vary, the price level may be measured in terms of the importing country's market value, or the exporting country's market price.

Still another form often found is the countervailing duty, which is a retaliatory tariff assessed against the product of an exporting country which may have in effect bounties or subsidies for the purpose of promoting export of the product. In addition to regularly-assessed duties, there are frequently other minor levies, such as surtaxes, statistical fees, clearance fees, transit fees, and the like. As a general rule, all import duties are paid by the foreign importer, and not by the American supplier. Nevertheless, foreign customs procedures should be well known to the exporter, since they may involve special formalities, the expense of which will have bearing on the laid-down cost of the goods at foreign ports.

Quotas and Import Licenses

As a further device for restricting or controlling imports, many countries have in effect quota or import license systems. Quotas are usually of a quantitative nature and fix a definite quantity of goods which may be allowed entry in a country within a stipulated period. They may apply to certain classes of goods, or to all goods of a particular class over a fixed minimum. Or, sometimes they take the form of so-called tariff quotas, by which specified quantities of goods are allowed importation at a reduced rate of duty, or duty-free, any quantities above the quota being subject to full duty.

Import licenses are permits obtained by the foreign buyer from his government to allow shipment to him of stipulated quantities of specified goods. Where required apart from the quota system, they give the importing country an added control over the importation of particular classes of goods, frequently for the purpose of limiting total imports or of directing the flow of imports to preferred countries. If quotas or licensing systems are strictly adhered to, they are very effective instruments in limiting imports. They permit a much more definite control than it is possible to attain through import duty systems alone. Where they are in force, the seller should assure himself that all regulations are known and complied with before his goods are dispatched.

Foreign Exchange Restrictions

Many countries exercise official regulation of the sale of foreign exchange as a protection against the flight of capital, exchange depreciation, and depletion of gold reserves. Regulations may be imposed also to facilitate a fair and orderly apportionment of available supplies of exchange among all importers, or to conserve exchange for the purchase of those imports which are deemed essential or desirable. To carry out such purposes, either the central bank or some other government agency of the country is given control over all supplies of foreign exchange arising from the country's exports, with the power to release such exchange to importers under the terms of the law or established regulations.

Since the determination of what constitutes a necessity or a luxury is in the hands of the control authority, and is often subject to change on short notice, the American supplier sometimes may not be sure whether the importer will be able to obtain the necessary dollars to cover his purchase. If they cannot be obtained at the maturity of the draft drawn upon the importer, the only way the importer can pay is to deposit his own currency with the collecting bank to the credit of the exporter or to his own credit with an application to buy dollar exchange when available. In some countries the importer's local currency may constitute legal discharge of the debt, regardless of the seller's acquiescence. In such a case, the seller should act to protect himself against possible exchange loss by securing the agreement of the foreign importer to increase his deposit of local currency if the rate of exchange should change before dollars are available to cover the draft.

Quarantine Regulations

QUARANTINE regulations are in effect in most countries for the ostensible purpose of preventing the spread of animal and plant diseases and pests through importation of certain classes of goods. There are good and sufficient reasons for the imposition of such regulations if they are confined strictly to the avowed sanitary purposes. However, they can be taken advantage of, through more general application, to bring about control of imports not originally contemplated in the law. This is another type of import control of which the American supplier should be fully aware as it relates to his products.

Industrial Property Protection

THE COMPANY which is giving serious attention to foreign markets for its merchandise will do well to give adequate attention to the protection abroad of trade-marks, patents, designs, and copyrights. An enormous amount of goodwill has been built up throughout the world by the excellence of American products. The maintenance and enlargement of this goodwill is dependent in large degree on the vigilance exercised in providing protection for them.

Although foreign laws and regulations regarding such matters supposedly involve original purposes other than the regulation of international trade, their application sometimes can severely handicap the free flow of American products. When a trade-mark, patent, design, copyright, or other right is of essential value in the marketing of a product, the seller should be very careful to preserve it in his foreign business and take appropriate measures to guard it against piracy or infringement. The laws of foreign countries vary greatly in their application to such matters, and the fact that rights are guaranteed within the United States does not protect him in other countries.

Widespread international recognition exists concerning the need for uniformity in this branch of law, as is demonstrated by international

conventions, in one or more of which all important countries of the world participate. Limited rights and privileges in respect to trade-mark protection in principal countries of the world are guaranteed to American trade-mark owners by virtue of the International Convention for the Protection of Industrial Property to which the United States is a party. The United States is also a party to a similar convention ratified by several Latin American countries. The present United States trade-mark law became effective in 1947, and contains many provisions which facilitate protection of American marks abroad and of foreign marks in this country.

Information regarding protection in this field and the various conventions relating thereto is available from the United States Department of Commerce. In taking actual steps toward protection, however, it is essential that the seller secure the advice and services of an attorney specializing in the field and who has associates in foreign countries in a position to facilitate the operation.

Reduction in Trade Restrictions

THROUGH the depression years and during the war the growth in many kinds of restrictions became definite barriers to a free flow of international commerce. The United States, in an effort to mitigate the adverse effect of such restrictions, instituted as early as 1934 the Reciprocal Trade Agreements program, having as its purpose reduction or elimination of excessive import duties, quotas, license systems, exchange regulations, and other trade barriers. Since that time the United States has concluded agreements with many important countries which have brought about more satisfactory economic relations and facilitated a larger volume of exports and imports. (See Trade Agreements, page 43.) However, much remains to be done, particularly in the field of non-tariff trade restrictions.

The program is carried out through the Department of State by means of direct negotiations with nations having similar interests. Such arrangements are executive agreements, and not treaties of commerce, and as such do not require Senate ratification. They are authorized under the Reciprocal Trade Agreements Act of 1934. (Section 350 of the Tariff Act of 1930.) Renewals of the Act have been made at frequent intervals since its original passage, the latest being for a four-year period ending July 30, 1962. So far as tariffs are concerned, the President has authority, after full hearing and with due consideration of the interests of American producers, to seek tariff concessions or assurances from other countries against higher trade barriers or the removal of discriminations in exchange for offered concessions from the United States.

One of the most important features of the agreements is the provision in each that any concession granted by the United States to one country shall be extended also to all other countries, thus eliminating any charge of discrimination. One recent extension of the Reciprocal Trade Agreements Act, however, modified the extension of the uncon-

ditional most-favored-nation treatment which had been United States policy for a number of years. The Trade Agreements Extension Act of 1951 provided for the withdrawal of all tariff concessions made under the Trade Agreements Act to the Soviet Union and all countries under communist control.

Unconditional most-favored-nation treatment is in contrast to a policy which makes concessions applicable only to the nations signatory to the agreement. The latter has in the past often led to retaliatory measures by third countries. Although a full explanation of the various features of most-favored-nation treatment goes beyond the scope of this booklet, it should be mentioned that a third form of this treatment has been in vogue, namely conditional most-favored-nation treatment. This consists of extending the benefit of a concession given originally to the signatory nation or nations only upon the condition of a third nation giving a commensurate benefit in return. (Note: See page 43 for remarks on the General Agreement on Tariffs and Trade.)

For the purpose of better stabilization of currencies, relieving temporary shortages of foreign exchange, and assuring a more orderly functioning of the system of multilateral payments, the Bretton Woods Conference of 1944 provided for the establishment of the International Monetary Fund, now subscribed to by sixty-nine nations, including the United States. The Fund was set up in conjunction with the International Bank for Reconstruction and Development, designed as the predominant agency for credit advances in the postwar reconstruction program. The Fund, which began operation in March of 1947, is designed to keep exchange rates between member currencies at or near established parities, and to enable countries experiencing foreign exchange difficulties to borrow other currencies for a short period until balance is restored.

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